TO CREATE A DEPARTMENT OF INTERNATIONAL TRADE AND INVESTMENT

HEARING

BEFORE THE

COMMITTEE ON GOVERNMENTAL AFFAIRS UNITED STATES SENATE

NINETY-FIFTH CONGRESS

SECOND SESSION

ON

S. 1990

TO ESTABLISH AS AN EXECUTIVE DEPARTMENT OF THE GOVERNMENT OF THE UNITED STATES A DEPARTMENT OF INTERNATIONAL TRADE AND INVESTMENT, AND FOR OTHER PURPOSES

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TO CREATE A DEPARTMENT OF INTERNATIONAL TRADE AND INVESTMENT—S. 1990

FRIDAY, FEBRUARY 24, 1978

U.S. SENATE,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, D.C.

The committee met at 10:06 a.m., pursuant to notice, in room 3302, Dirksen Senate Office Building, Hon. William V. Roth, Jr., presiding.

Present: Senators Roth, Heinz, and Danforth.

OPENING STATEMENT OF SENATOR ROTH

Senator ROTH. This morning's hearing is the first of several that this committee intends to hold over the next few months on governmental operations affecting the making of our international economic policies and more specifically on S. 1990, the International Trade and Investment Reorganization Act.

We live in a world of growing economic interdependence. This causes enormous adjustment problems for our economy and industry but I believe it can also be a source of great opportunity for America. In this hearing, the key question is whether our governmental structure is organized to help meet these new challenges and take advantage of the expanding opportunities in a much larger, more prosperous, and much more complex world economy.

At the present time, there is a great deal of fragmentation in the governmental structure dealing with international economic issues. Some of this is inherent in any organization and is needed to insure that any single problem is considered from a variety of important perspectives. Some of it, however, is a product of historical evolution with little or no present logic, and is very detrimental to the formulation of realistic, coherent international economic policies. As long as the United States is as disorganized as it is today, foreign countries will be able to take advantage of us simply by playing off one part of our Government against the other.

To avoid any confusion about S. 1990, the Roth-Ribicoff International Trade and Investment Act, let me briefly explain what it is and what it is not. It proposes to consolidate into one Department of International Trade and Investment the Special Trade Representative's Office, and the trade and investment functions of the Departments of Commerce and Treasury. Smaller elements of the State Department and the International Trade Commission are included, while the Eximbank and the Overseas Private Investment Corporation are included in the Department as semiautonomous units. It does not propose a Department of International Economic Policy.

The new Department of Trade and Investment would be entirely made up of existing offices and agencies. It would reduce duplication, not create new bureaucracy.

It would streamline governmental machinery to promote exports and to protect our domestic industries against unfair competition. It would help our trade negotiators be tough bargainers by joining in one department the negotiating and the retaliatory trade functions.

I am convinced that in a fast changing and highly interdependent world, the United States needs the same kind of apparatus that other major economic powers have to promote the sale of their goods and services—a department of Government with specific responsibility for trade.

Senator Heinz, do you have an opening statement?

Senator HEINZ. Thank you, Senator Roth.

OPENING STATEMENT OF SENATOR HEINZ

A a cosponsor of the legislation we are considering today, I want to express my appreciation to the chairman for calling this hearing, which will start the legislative process moving on this long overdue change in the structure of the institutions that make and implement our trade policy.

S. 1990, which would create a new Department of International Trade and Investment, represents a much needed legislative step which will enhance the development of a coherent American foreign trade policy. At present we suffer from several disparate agencies involved in international trade, investment, and trade disputes of various kinds. Although in theory this kind of diffusion of policy-making authority is not necessarily bad, in practice the lack of a central coordinating agency has often produced contradictory and inconsistent policy on trade matters.

As a Representative of a State with numerous trade-related problems, I can personally testify to frequent occasions when inconsistent policy direction is coming from different sources. Department of State and Treasury officials, for example, are often at odds with the Department of Commerce with respect to specific cases and more general policy issues. This kind of inconsistency, I believe, makes it more difficult for us to speak with a united and effective voice internationally—at the OECD or the multilateral trade negotiations.

In addition to rationalizing such policy differences, a Department of International Trade and Investment can use its collected resources to investigate ways of improving our trade balance, protecting those domestic industries suffering from unfair foreign competition, and strengthening our bargaining position with other nations. Such a department would also be a clear signal to our trading partners of the importance we place on a coordinated vigorous trade policy and the fact that the administration is finally going to begin speaking with one voice on trade issues.

Mr. Chairman, clearly, we will want to discuss in some detail the various provisions of the bill, and we may well want to make some changes. However, I believe the concept of this bill is extremely important, and I hope the committee will follow up this hearing with further consideration of the bill and ultimately proceed to mark up on it.

Senator ROTH. As our first witness I am very pleased to welcome the Honorable Dan Minchew, Chairman of the U.S. International Trade Commission.

Senator ROTH. Prior to going to the Commission, Mr. Minchew worked for Senator Talmadge on trade matters. We appreciate your taking the time to appear before our committee on what I consider to be a most important topic.

We would be happy to hear your statement.

TESTIMONY OF DANIEL MINCHEW, CHAIRMAN, THE U.S. INTERNATIONAL TRADE COMMISSION

Mr. MINCHEW. Thank you, very much, Mr. Chairman, Senator Roth.

I am pleased to come and testify before you because you have long been an advocate of what I think is a much needed reform in our international trade and investment policymaking apparatus.

I am speaking today on my own account as one member of the U.S. International Trade Commission.

It is a great pleasure to be here today and to have the chance to comment on S. 1990, a bill to create a Department of International Trade and Investment. I strongly support, with great enthusiasm, prompt enactment of S. 1990.

Over the past decade, I have watched the Federal Government's approach to international trade policy, first as a representative of trade associations, then as a staff member here in the Senate during the period when much of the work on the Trade Act of 1974 was being done, and finally as a commissioner at a small, independent agency, the U.S. International Trade Commission (USITC). What I have seen is the growing inadequacy of an interagency committee system which, when it was first conceived to deal with trade problems, worked very well, but more recently, as the pace of this Nation's involvement in international trade has picked up, has found itself increasingly unable to cope.

As you know, Mr. Chairman, it has been several years now since I first commented publicly on what I consider to be the serious drawbacks of retaining much longer the present way of formulating and executing international trade and investment policy. The faults that I mentioned then have not diminished or disappeared, but the burdens imposed upon the system as a whole have vastly increased and will continue to do so. I find now, as I found then, a lack of effective congressional or Executive control over a well coordinated total trade and investment policy. I still find an absence of meaningful coordination—a condition which lays a heavy tax on Congress oversight responsibilities. And I find inefficiency and waste stemming from redundancy of effort and resources among the economic agencies, making our trade policy apparatus at times resemble a costly imitation of the dark ages, with each agency maintaining its own band of trade retainers, East-West trade bureaus and other symbols of turf, closely protected behind the castle walls of Treasury, State, Commerce, Labor, Agriculture, Defense, and even the USITC, and all the others which have a piece of the trade pie. Seeing, on the other hand, the well ordered advances of our economic competitors, I am delighted to have this opportunity to comment on what I consider to be a timely and effective legislative proposal, and on the need for its prompt enactment.

I would like briefly to point out what I feel are a few of the more urgent needs of the United States in international trade and investment policymaking and note how these would be met by a Department of International Trade and Investment.

(1) CONSISTENCY IN THE MAKING AND ADMINISTRATION OF POLICY

To create the climate for greater and more successful participation by U.S. business, labor, and consumers in international trade, a foundation of openness and consistency must be laid by the U.S. Government in international trade policy. Under the persent system, with trade policy a stepchild and secondary consideration of each participating agency, with the exception of the Special Trade Representative, consistency is sacrificed to time pressures and the demands of each individual situation. The proper climate for investment, however, and greater participation in international trade can only be created in my opinion by a single Federal entity with the primary, not secondary or tertiary responsibility, to quote in this proposed legislation: "to promote the general prosperity of the United States by strengthening beneficial economic relations between the United States of America and foreign countries."

(2) GREATER RESPONSIVENESS TO THE PUBLIC

The framers of the Constitution recognized the need for a close link between government and people in the trade area when they vested responsibility for trade policy in the Congress instead of the President. Is it any wonder that in recent years Congress has increasingly questioned its large delegation of authority in this area to the executive branch, when the only way the average citizen can exert any control over the complex interagency system, or even keep up with which agency has the ball, is by asking a Congressman or Senator to intervene?

Congress and the American public, to my mind, would be far happier and would be immeasurably better served if there were one place in the executive branch for people to bring their international trade hopes and problems. Moreover, under a system where interagency confusion was no longer an obstacle as it is at the moment, the U.S. participation in international trade would be enormously strengthened by securing the public as a more active partner in the trade policy process. If I can cite personal experience, I have found that the USITC's rebirth as an effective and forceful entity is due in major part to the public support we have received through two simple innovations. First, we began taking many of our public hearings out of Washington, D.C., where they had almost all previously been held, and holding them in parts of the country where people who were likely to be affected by our actions might live. The public response and the value of the testimony we received have both been phenomenal, simply because we went to the people who had the most direct experience with the problems. Second, we introduced our own "sunshine regulations" well in advance of the law, and have opened up our Commission meetings and deliberative sessions in almost every instance to anyone who comes. As a result, people have become aware of who we are and what we can do to help them, and our own effectiveness has grown enormously. I would hope that, by centralizing the presently widespread authorities of the executive economic agencies into one responsible entity, you will have an international trade institution capable of doing many of the same things we have done, but doing them with the force of a department rather than a relatively small independent agency.

(3) RESEARCH CAPABILITY

If we learn any lesson from the range of commodity crises we have seen in this decade, involving products like oil or steel or sugar, it ought to be that, in trade, it is vitally important to be able to predict and deal with problems before they reach the crisis stage. Historically, no single Government agency has felt primarily responsible for doing this. Consequently, we have not made use of available data to foresee and head off difficulties while they are still in the formative and management stages. We have had to wait until a problem was actually on top of us before we started pulling together the necessary information and forming a plan of action. We have become truly crisis oriented in our international trade policy and policymaking.

Anyone who has been involved in trade at all knows how costly and how frustrating it is to try to deal with a footwear issue or a television issue or a steel issue after it has reached the stage of national emergency, especially when, if effective action had been taken early, the dangers might never have materialized. As long as we continue our present, last-minute troubleshooting approach to trade problems, we are going to continue to face time-consuming controversies and costly crises—costly, I might add to business, to labor, and to consumers. In my opinion, a range of problems from the conflicts over DISC and foreign taxation all the way to the energy crisis could have been prevented or diminished by early research and a coordinated set of actions on the part of the total U.S. Government.

At the present time, serious issues are going begging which, if left unattended, could lead to large-scale difficulties in the future, in the electronics industry in my opinion, for example, or the automobile industry. These are problems which merit the attention and resources of a full-time trade department now; but no one entity has the overall mandate to devote much time to working with domestic and foreign interests to try to avert these problems while they are in a more manageable stage. To my mind, it is vital that the clear responsibility for research and investigation of this kind be vested in one Government agency with the mandate not only to find out, but to act and act promptly on matters of this nature. Again, the series of problems we now face involving foreign unfair trade practices have grown up over a number of years. Congress has demonstrated its awareness and concern over the lack of effective action against these practices by giving the USITC, through the Trade Act of 1974, the clear authority to take action. But if an agency of the U.S. Government had shown itself willing and ready to act in such cases earlier in this decade, we would not, in my opinion, be experiencing problems of this magnitude at the present time in areas such as steel. If there had been, in effect, a policeman on the block, a single Government agency ready to serve as a watchdog in matters of this sort, I firmly believe that even the adverse effects of high-volume fair trade, which has risen in escape clause cases before the USITC in the past 3 years from a value of $250 million to over $5 billion a year, would have been significantly lessened.

The authority to take such action has been there for some time; but though Federal agencies have squabbled over jurisdiction in the unfair trade practice area, little action has so far been taken. In my opinion, such jurisdiction would, under the provisions of this proposed act, be vested where it belongs, in a single Federal entity which can start shouldering the responsibility in these cases.

(4) CONGRESSIONAL OVERSIGHT OF TRADE MATTERS

As long as the Congress, under article I, section 8 of the Constitution, has responsibility for trade policy, there needs to be an adequate mechanism for congressional oversight.

There is no question that Congress would be better able to maintain an effective oversight over a single department than over the entire, farflung system of agencies, commissions, bureaus, banks, and what have you, which presently formulates and exercises international trade policy for the United States.

For all these reasons, speaking as one commissioner of one part of the Federal Government's international trade apparatus, I enthusiastically support this proposed legislation and commend its farsighted sponsors, Senator Roth and Senator Ribicoff.

I look forward to its passage and will be pleased to be of any assistance or furnish any information that I can.

I might add in the way of summary that after I first made a speech calling for such a department, I sat back and waited for the rotten eggs to be thrown. I expected a lot of them from other agencies of the Federal Government. I expected criticism from people who had vested interests in the status quo.

I expected some criticism from congressional committees who now share oversight of all of these farflung agencies. I am happy to say that not only did I not receive the avalanche of criticism I thought would be forthcoming, but I received personal letters of support from people who were on the Under Secretary or Assistant Secretary level in various departments throughout the Government and from people in the Congress. My office started serving as almost a clearinghouse for various places in town where people who had an interest in supporting your idea were coming forward and saying we support it.

It will be a difficult thing, I think, for any agency to give up part of its turf. But I have seen, Mr. Chairman, too often, Government agencies—and my own at times is perhaps guilty of this—trying to protect turf first instead of looking after the public interest first.

I think it is time, past time, for the interests of the American people to come before the interests of the turf of the USITC or the State Department or the Treasury or the Commerce or the STR.

I think you have a very good bill and I support it enthusiastically.

Senator ROTH. Mr. Minchew, I appreciate very much your excellent statement and particularly your strong support of the concept. I think your closing comments about the bureaucratic opposition to reorganization point to a serious problem, and it is encouraging to me to hear from you that a number of people in the various agencies and departments support the concept even though it may result in some giving up of turf.

We are in agreement as to the special responsibility of the Congress in trade, and some people have expressed a concern that if you centralize, Congress would lose the independent advice and information that it now receives. For example, you came here as an individual, you didn't clear through OMB, I assume, as an official of the new department presumably would. I wonder, does this give you any problems as a person who has been active on the Hill as well as in the executive branch of Government?

Mr. MINCHEW. This doesn't give me a problem, Senator Roth. The benefits of a consolidation so far outweigh in my opinion any loss that might come from resolving the process of differing or conflicting opinion and subsequent solution that you have in the present system, that I would opt for the consolidation.

I don't want to sound overly critical of the interagency process. I think it has served us well for a long, long time. But it served us when trade was only a small part of our total international economic structure.

Nowadays, trade has become a much more significant part of our total economic picture, and in the future will play an even larger role. In order to cope with the problems that we will have between now and the end of this century, we cannot rely on the mechanics that were serving us well in the 1940's and 1950's and 1960's. At our own little agency, as recently as 1975, we decided cases involving complaints against foreign trade to the extent of less than $1 billion—I think it was about $750 million.

This year, in the testimony I have given in the House recently, our staff has projected that the complaints we will decide this year might be against $25 billion to $28 billion worth of foreign trade.

That is some growth in just 3 years. The experience that we are having is, I think, an example of the greater importance that people, not just big multinational companies, but small- and medium-sized firms, working people, consuming groups, are attaching to international trade.

Trade issues are mushrooming while our facilities for dealing with them in the past have been good, they are not as adequate as we need when your workload is increasing, as in our case, 25 times over.

The responsibilities for the Congress, too, in overseeing this mushrooming executive responsibility form another strong reason for consolidating.

I hear many arguments, and I am in sympathy with many of them that the Congress cannot set trade policy, because it is closely intertwined with foreign relations policy. But as long as the Constitution says what it says and until the people amend the Constitution, the Congress has the responsibility for trade policy; and if it delegates it to the executive branch, as I think the Congress is wisely doing, it should be able to look and make sure that the executive branch is doing it well.

It is a very difficult thing, I think, to get a bill like yours passed. In the present system, some committees will probably have to give up some of their jurisdiction. But there has to be statesmanship on the part of the executive branch with the departments giving up some of their turf and statesmanship also on the part of the Congress with reorganization of oversight functions, so that you have in one place an entity which can oversee the congressional responsibility which you delegated to the executive branch.

Senator ROTH. I share your concern. As I look at the increasing importance of trade to our economy and to our workers, one of the things that has especially bothered me is that, basically speaking, we have had no coherent policy.

International trade has been a stepchild, I feel, of the many agencies involved in it.

Somehow, if we are going to take advantage of new opportunities, it seems to me that somehow in the executive branch together with the Congress, we have to have some type of mechanism to develop a policy in this area.

You have mentioned, for example, the problems that you have run into in the research area. That you feel, very strongly—as I do—that if we had anticipated some of these problems, we would be in a better position to avoid them or at least minimize the impact of acting after they become hot national domestic issues.

That is the short-range problem in many ways. We mentioned electronics, the automobile industry, et cetera, but I think there is also a long-term problem as well. I gather, for example, that some countries, Japan, for example, they are already beginning to plan how they are going to meet competition and how they are going to develop new markets for 19 to 20 years in the future, not only looking to problems of specific industries today but in the future.

Is this being done anywhere in our Government that you are aware?

Mr. MINCHEW. We have many resources, some of which are represented in the room here behind me today, Mr. Chairman—people who have great skills and great expertise in the international trade and investment areas.

I am fearful that our expertise, this valuable resource, a national treasure, I would say, in the international trade area, is being used, as I said in my statement, almost on a crisis-by-crisis basis.

We are trying to solve the steel problem today, the television problem yesterday, the footwear problem the day before yesterday. All of this resource meanwhile is concentrated on a problem that is current.

People are not even looking 6 months down the road. With all of this talent that I am confident we have in the Federal Government, if we need to look ahead, 5 years, 10 years, toward the end of this century to see where we need to be, they can do the job. But they cannot do the job if every agency is concentrating all of its resources on the problem of the moment. At this point we do not have anybody looking 3 years, 5 years, 10 years, 20 years down the road.

Most of our trading partners who are successful—and even trading partners who are in underdeveloped status at the moment—are doing this and doing this very well.

I recently was in Mexico and met with some top trade officials there and was very impressed with the Mexican planning, not just 5 years, but 20 years down the road. We have the capability to be doing that but we are trying to sort out zinc problems and copper problems and steel problems and footwear problems and textile problems and television problems and even iron blue pigment problems, an industry with fewer than 100 employees in this country.

But we spend a vast amount of resources on the current crisis and we cannot climb out of the ditch before another crisis is on us. So we are crisis oriented rather than long-term solution oriented.

Senator ROTH. I think that is the core of the problem. You state it very well.

Going back to the question of bringing together under one roof some of these activities, I would like to ask you, Chairman Minchew, in your opinion, should the International Trade Commission be completely included in a new department of trade, partly included, or not at all?

Chairman MINCHEW. For sure it should be partly included, and I have said in other forums that I, for one, would not be distressed to see my own agency go out of existence if in merging the USITC into a more effective coordinating entity, the public interest could be served.

While it might not be popular with my colleagues, perhaps, or with my staff, I think that upon reflection, many people would agree with me that our responsibility as public employees is not to protect our own turf or our own agency, but to do as public employees should do, look out first of all for the national interest.

I can see many ways the national interest can be served by a complete merger of USITC into a new entity. Part of the reason we existed was to give an independent voice to the Congress. That voice was needed in 1916; perhaps it is needed even more today in the current situation; but if the Congress, through a reorganization of the type which you have recommended, can centralize its oversight responsibilities, the need for an entity such as the USITC to give you independent economic advice might be significantly lessened. No matter how it hurts, I call it like I see it.

If there is no longer a need for us to perform the functions that we were set up to perform, don't perpetuate us.

Senator ROTH. I want to congratulate you. It is a very refreshing thing to hear an individual such as yourself be able to take that kind of a position. It would be my judgment that as far as people within that particular commission or other agencies, this new type of organization would really provide enlarged opportunity rather than less opportunity despite the fact that a particular commission or branch of government would become part of a larger unit.

It seems to me that what you say makes good sense. One of the concerns here on the Hill in the years that I have served, has been a feeling—whether it was a Democratic or Republican administration—that there has been no effective policy, that too often the executive branch has not looked out for the best interests of the United States, its commerce and the employees involved in that commerce. So what we are seeking here is a means of strengthening that role.

I want to ask you, on page 5 of your testimony, you mentioned the problem of the growing number of foreign trade practices. In this regard, I understand that the ITC has faced a number of problems in the exercise of its section 337 authority relating to discriminatory pricing practices.

It is my understanding, that Treasury, State, and most of the other agencies oppose your getting into this area because they fear or thought it was in conflict with the Treasury antidumping authority, State foreign policy concerns, judiciary antitrust responsibility, and so on.

Would you care to comment on this problem and how it possibly may have affected your effectiveness or Treasury's in the unfair trade practice area?

Mr. MINCHEW. The Congress in the Trade Act of 1974, which President Ford signed early in 1975, gave the USITC increased authority and jurisdiction in this area. I am the first to admit that the increased authority and jurisdiction, perhaps, verges into areas that previously we had not entered and which other agencies felt was their turf.

Our agency does not answer to the State Department, the Treasury Department, the Justice Department. We look at the statute as the Congress wrote it and as the President signed it.

The Congress and the President clearly intended for the USITC to get into the business of looking at the unfair trade practices.

We sent to the President earlier this week what I think is the most significant unfair trade practice decision that we have had at the Commission since I have been there. It involves stainless steel pipe and tube.

It is not significant because it is a steel case; it is significant because an independent agency, partly in the face of opposition from other parts of the executive branch, was able to carry out the congressional mandate in a very timely fashion and issue a cease-and-desist order when we found that the foreign manufacturers were in fact in violation of section 337, but do it in such a way that it was procompetitive. We did not say even that "you are going to have to post a bond."

We said in that case, "You are going to sell at above the average variable cost."

I think U.S. producers and workers can compete with foreign manufacturers in almost every industry but have to compete on a relatively fair basis. They cannot compete with foreign unfair trade practices. To the extent that 337 empowers our agency to move, I think we have a strong commitment on the part of all commissioners to move into the area over which the Congress has given us jurisdiction.

Now, having said that, if there is merit in consolidating all of these functions into one entity, it is surely in the area of unfair trade practices.

If we have not been doing this effectively for the last 5 years—and it is not the USITC's fault, not Justice's fault, not FTC's fault, not Treasury's fault—it is that we have all been so busy on other things.

No one was really strongly enforcing against unfair trade practices. If we had just a policemen on the block, I think many foreign unfair trade practices that are now hampering U.S. competitiveness would not even have grown up, because foreign interests would have been on notice that if they were engaging in unfair practices, action would be taken against them.

When you gave us the authority to move we started to move. It has ruffled some feathers. I apologize to our friends in Treasury and Justice, FTC and other places; but until the law is changed, we at the USITC are going to carry out our jurisdiction.

This is not to say that the overlap, the conflicting jurisdictions are in the national interest. I personally would like to see the Congress look at all of this and come up with a definitive answer of where the strict enforcement of this should be placed, even if it means the loss of what is, I think the most glamorous function of the USITC, our vigorous prosecution against unfair trade practices.

Senator ROTH. I have heard, for example, that the ITC had a great deal of difficulty in getting information from Treasury, and cooperation from State when it began working on the color TV case. In the judgment of some people, that squabbling has hurt your effectiveness as well as Treasury's.

I wonder, are there any specific areas that you could comment on pointing out where it has not worked in our best interetss?

Mr. MINCHEW. To the extent we have had to devote resources, to the extent that Treasury, to the extent that State, to the extent that Justice and other agencies have had to devote resources to fighting the turf battle, it has probably affected the usefulness of all of us. But as I have said repeatedly in other fora, and mentioned here today, we don't need to spend our time on fighting for turf.

We need to spend our time on looking out for the interests of the American people.

Now——

Senator ROTH. Could I interrupt to ask you did you have trouble, for example, getting information from Treasury when you started the color TV case?

Mr. MINCHEW. We did have from Treasury some difficulty in getting information in the television case, but we were able to get sufficient information to come to a conclusion in the case.

I don't think our difficulties with other agencies have prevented us ultimately from doing our job. They slowed down the process somewhat because we were fighting over turf.

I think in the recent steel case other agencies which urged us not to proceed will see when they read the report that we have come out with a decision that they probably can not only support, but also rejoice in, because it is a procompetitive decision.

We are cooperating very closely with Treasury and in fact are giving them now information allowing them to move on cases. In fact, as a result of the investigative work we did in the steel case, the same steel pipe and tube case that we sent to the President earlier this week, we transmitted information to the Treasury sufficient to allow them to institute their own investigation.

Now, that brings into focus another problem: When you have two entities in the Government investigating relatively similar things, you have, as you said in your opening remarks, a duplication of effort which, if you had it consolidated in one place, you would not have. In part this is a fault of the statutes under which we operate. But it is also in part a fault of having two or three or sometimes four or five different governmental entities looking at the very same thing.

We see this in East-West trade. There is an East-West trade bureau in Treasury, in Commerce, in State, even the Defense Department has an East-West trade bureau.

Now, because the Congress wants some additional information, we are giving you quarterly reports on East-West trade. When you find the East-West trade redundancy multiplied several times over in the Federal trade establishment, it makes me think you can bring together a Department that in total will be much smaller than the sum of all of the people presently involved in trade policy and probably be able to do a more effective job.

Senator ROTH. One of the reasons I feel so strongly we need a better mechanism to deal with these kinds of problems is that they are becoming much more complex and difficult to deal with. Take the number of countries not only with East-West trade but Western democracies, many of your large competitors are financially supported, even owned, by governments.

Many times the goals of that kind of a shareowner is to maintain employment and that can provide some very tough competition for this country where we don't have that kind of situation. So that it seems to me that it is very bothersome to me when we have several agencies dealing with the same problem, that part of their attention is being spent on interagency disputes and rivalry rather than trying to meet that challenge.

Senator Danforth is here—I have asked questions for several minutes, I don't know whether you care to make a comment or ask questions at this time, Senator Danforth.

Senator DANFORTH. Well, why don't you finish your questions. I do want to ask some questions of this witness.

Senator ROTH. All right.

You mentioned in your statement the absence of meaningful coordination in the executive branch. That was, of course, one of the tasks of the Council on International Economic Policy which recently went out of business.

Do you believe that some kind of restored coordinative mechanism could be as beneficial as a trade department?

Mr. MINCHEW. Not as beneficial, because a Council like a Council on International Economic Policy does not and never will have the status of a department.

I would opt for a department level. I was strongly supportive of the Council on International Economic Policy (CIEP) and I am still supportive of the concept. Perhaps CIEP is the transitional phase through which we will have to pass on the way to a department.

But I think we have in the special trade representative's office really the germ of an entity that can become a department, in the same way we had in CIEP the germ of an entity that could become a department.

You have to find these plans that can grow into the Department and cultivate them wherever they are. You already have a Cabinet level position in STR. You already have deputy Cabinet level positions in STR statutorily established.

It would be easy, I think, to let that particular entity without respect to who might be STR nor or 2 years from now or 4 years from now, grow into a department.

CIEP, if it had been supported adequately, could have grown into this Department.

Senator ROTH. One concern that some people have expressed by centralizing trade investment in one Cabinet department is that it might be captured by a particular trade philosophy.

For example, if we elected a President that was strongly protectionist, he would be better able to control trade policy and force a protectionist policy across the board.

Does that concern you?

Mr. MINCHEW. That doesn't concern me for this reason. In this situation, you are going to have pros and cons and you have to look and see whether the pros outweigh the cons.

I think that the pros of centralizing so far outweigh the dangers or the likelihood of any group's taking over the department that I would move ahead.

It is much more likely under the present system that you would have a group take over trade policy, in my opinion, and in fact we have had indications that, in the interagency process, whichever Cabinet officer or department takes the strongest stand on this or that particular issue, is probably going to prevail. And in the next crisis that comes along it might be a different Cabinet officer taking a strong position and succeeding.

The danger is now that a free trade or protectionist group can lay all their chips on a particular vote and say to a Cabinet officer, "No matter what, we want to win this one," and that Cabinet officer will go in and really fight hard on that particular issue. That sort of thing leads to inconsistency.

We have had legitimate needs, I think, for protection in some instances that have gone unheeded. We have had other instances where the justification for protection was not nearly so great, but it prevailed because there was an industry strong enough to get in and really bear down on a couple of Cabinet officers and those people in the interagency processes carried the ball and carried it very well, and there was resulting protection.

If you had it all centralized in one place, I don't think you would have the possibility of a Cabinet officer being so completely dominate as I think has been the case in some instances in some commodity areas under the present system.

Senator ROTH. Mr. Minchew, as one who again has had the unique opportunity of watching trade both as a member of the congressional branch and an independent agency, how do you compare our effectiveness in coordinating international economic policy to promote exports and protect our industry from unfair foreign competition to that of other governments?

Do you think we are as good, less?

Mr. MINCHEW. Given the structure we have, I think we operate as well as we can. I don't want to be overly critical of our efforts. We are trying to do the best we can. We could do a much better job if we had a structure that was more attuned to the needs of the 1970's, 1980's, and 1990's than a structure attuned to the needs of the 1940's, 1950's, and 1960's.

I am not as much of an expert in the particular provisions that other countries have so much as a later witness, Dr. Cohen, whom you have appearing today—but I know from my travels and things I see at the Trade Commission, we have a much less streamlined system than other countries have.

Senator ROTH. Senator Danforth?

Senator DANFORTH. To follow up on an earlier question Senator Roth asked you. What concerns me is that if we combine the functions of the International Trade Commission and Treasury in a Cabinet level department, foreign policy considerations which are set by the President on down, will really pretty much govern our day-to-day enforcement of, say, antidumping laws.

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In the field of antitrust, I would guess that the general feeling in the Justice Department is that unfair trade practices, predatory practices, and Robinson-Patman Act violations are wrong, and that without countervailing considerations, the force of the Federal Government should be aimed at those practices and should attempt to protect those businesses that are being victimized by unfair trade practices.

It is my impression that this kind of consensus with respect to predatory practices and unfair practices in the antitrust field in domestic competition, is not as uniformly held with respect to foreign competition because that area involves something more than the effect on a particular industry—the foreign policy of the country, the international economic situation. My impression has been that the International Trade Commission has been much more inclined to enforce the law than has Treasury, and that the reason for this is that Treasury is really implementing a total executive branch position with respect to foreign policy. This is a long question, but what we would like you to address yourself to is whether putting everything within the executive branch is not moving in the wrong direction rather than the right direction.

Mr. MINCHEW. The concerns and the problems you have articulated, and articulated very well, constitute the heart, I think, of the reasons why the Roth-Ribicoff proposal should be supported and supported enthusiastically—for reasons, including these:

At present, with its impact spread out in many departments and agencies, when an executive branch agency decides not to enforce the law, there is one oversight committee in the Congress that looks at it if it is Justice, Antitrust Division; there is another committee that looks at it if it is Treasury; there is another committee that looks at it if it is the FTC. There is such a diffusion, and in each of these committees—as in each of these departments or agencies—international trade is not the prime area of concern.

If you had trade responsibility in one department, with one committee in the Congress looking over it, you would have much less likelihood I think of the trade laws of this land not being enforced than you have at the moment.

Now, trade is a congressional, not an executive branch responsibility. The Constitution gives it to the Congress, not to the executive branch.

You have wisely, I think, delegated this to the executive branch, because 535 individuals cannot decide a trade policy so well as the executive branch can, when it does need to be coordinated with foreign policy, when it does not need to be coordinated with defence policy, perhaps, when it needs to be coordinated with other national interests, and issues that are in the executive branch.

But in the present system, the oversight function—here I am somewhat critical of the Congress—is so spread out that it is very hard for all of the committees with a part of the pie to fulfill their responsibilities as well as if the oversight authority could be concentrated in one place, overseeing a similar concentration of executive branch trade responsibility.

I do appreciate your comments about the USITC and our trying to move in the unfair trade practice area. But we have been able to move in this area because our two committees of jurisdiction, Ways and

Means in the House and the Finance Committee in the Senate, have made it very clear to us that they wanted us to enforce the law—not the law as the State Department sees it or as the Treasury Department sees it, or as the Justice Department sees it, but the law as we see it, as they wrote it and as the President signed it.

If you had the trade functions coordinated in one central place and you had the congressional stamina to oversee it, you would have, I think, very little fear of the danger that your questions imply.

Senator DANFORTH. I think that Congress has set the policy that we want followed. The problem as I understand it is in the implementation of that policy; the fact that punches are pulled in order to accomplish objectives other than enforcing, say, antidumping laws. That is what my concern is.

If you wanted to put it altogether in one place instead of having a new Cabinet-level department or instead of putting everything in Treasury—why not put everything in the ITC?

Mr. MINCHEW. I don't think that ITC is really the place to concentrate all of these functions. In response to an earlier question from Senator Roth, I said that many of the functions of ITC might reasonably go elsewhere; but when you have something as important as trade, it does have to be coordinated in the total executive family.

We would have the wherewithal and mandate, I think, to look at the consumer aspects; we would have the ability to determine what foreign repercussions might take place to other exporting items, but we would not have really the expertise—and I don't think should duplicate the expertise—for instance, of foreign policy experts in the State Department.

I might sound as if I am speaking against interest here, but I am not one who wants necessarily for the USITC to emerge as a stronger rival to existing entities.

I think that you really have to pull all of these things together in one place, and, very importantly, if the head of a department is going to be able to hold his own against the Secretary of State, against the Secretary of Treasury, against the Secretary of Agriculture, Commerce or Labor or Defense, that person is going to have to have Cabinet-level status.

The Congress is going to have to, in its oversight, make sure that it doesn't confirm someone to head that department who will not stand up to the Secretary of State or the President, if necessary, in fighting for the one function that the executive branch is performing on behalf of the Congress.

In trade, the executive should be your agent; in other areas, the executive has equal or greater authority than the Congress. But the problem we have in trade I think can be solved by stronger congressional oversight and that stronger congressional oversight cannot be achieved as effectively as long as it is spread out in 30 or 40 different places. And if, after you have consolidated it in one place, you find the same thing happening that happened in the past—that trade is taking a secondary or tertiary role—then you have under the Constitution the authority to bring this responsibility back to you.

You can bring it back to you much more easily if you have it all concentrated in one place than you can if you have to bring it back from Treasury here and State there and Commerce and Agriculture and Defense and USTIC and Export-Import Bank—you name it—all across the spectrum.

Senator DANFORTH. Do you think that my very layman-like, unsubstantiated generalizations about the difference between enforcement of antitrust laws on the one hand, and enforcement of trade laws on the other, was well taken?

Mr. MINCHEW. Yes, sir, I do. I think we should have a vigorous enforcement of unfair practices, whether they are domestic or foreign in origin. I will make sure you get later in the day a copy of——

Senator DANFORTH. And further, the reason that we don't is that there is this other consideration involved in enforcing the trade laws?

Mr. MINCHEW. I really am not capable of making a judgment on that. I have not worked in the Justice Department or worked closely with the executive branch. I can see that there may be different Attorneys General who have different emphases or different heads of the Antitrust Division who have different conceptions.

At the moment, I think we are beginning to see much stronger interest on the part of Treasury and Justice, FTC, and other agencies that have part of this pie in becoming active and in part perhaps they are becoming active because we have become active, and they see part of their turf being carved away.

We are into this area because in 1974 and 1975, the Congress told us to get into it and if that is what it has taken to get others more interested, Congress is to be congratulated on giving us that authority.

Senator DANFORTH. Thank you.

Senator ROTH. Senator Heinz?

Senator HEINZ. Thank you, Mr. Chairman.

Let me apologize to the Chair for not being able to be here at the beginning but I do want to compliment you together with Chairman Ribicoff for being the principal architect of this legislation.

I would ask, Mr. Chairman, that my opening statement be made a part of the record at the appropriate point.

Senator HEINZ. Mr. Minchew, it is good to see you again. I have been down to the U.S. International Trade Commission on occasion to see you and to see your Commission perform its very admirable work.

Can you cite any specific examples from your recent experience that would particularly delineate for us the number of agencies and organizational complexities involved in a decisionmaking process involving foreign trade?

Mr. MINCHEW. When we make decisions, for example, in our adjudicatory cases, they are referred to the President, sometimes as recommendations, sometimes as actions which the President can himself reject.

Whenever we send something over to the President, immediately the whole interagency process starts working. You first have STR, then you have Treasury, then you have State, then you have Agriculture, then you have Commerce, then you have Labor, you might have in addition, input from other executive branch functions and then you have an array of White House staff, all of whom have some interest in this.

That is just on decisions we make that trigger all of these things. When you have the Export-Import Bank, for example, deciding to finance particular projects in some parts of the world, you might have all of these agencies involved, plus the Defense Department, plus now, maybe even EPA.

You have now an almost unlimited set of combinations of different Federal agencies, bureaus, commissions, or entities that might get involved in trade problems.

I think that the Roth-Ribicoff bill is a step in the right direction. It is not totally comprehensive in bringing in all of these things, but I think it is surely the major step forward toward where we need to be in consolidating these functions.

Senator HEINZ. When your nuts-and-bolts decision or industrial fastener decision, as it is properly referred to, goes to the President or any of the other similar recommendations you make, and what you describe as the interagency interests start to be represented, what is, as you understand it, the refereeing or coordinating mechanism that now exists?

Mr. MINCHEW. First of all, there is a trade policy committee which is chaired by Ambassador Strauss, and most Cabinet-level agencies are members of this committee.

There is a working organization, a staff level committee which is chaired by Ambassador Wolfe, and most of the Cabinet-level agencies are part of that.

If I understand it correctly—and I am not part of this group—but if I understand it correctly, the day-to-day work of these committees is done by senior level career professionals of the departments.

That work is being overseen by the Ambassador Wolfe level and ultimately by the Ambassador Strauss level and, finally, decisions are made by the Cabinet officers themselves. Frequently you have disagreements among Cabinet officers—I only know this from the press—and in the nuts, bolts, and screws case, you had just that, with some people strongly recommending one action and others recommending virtually no action, and the President, then, ultimately making the decision—he is the ultimate referee.

Senator HEINZ. While Ambassador Strauss is Cabinet-level rank, he is not formally a Cabinet officer because he has no department that reports to him.

As I understand the industrial fasteners' decision, Ambassador Strauss had been arguing for a quota tariff which was different from what I think your agency recommended. But he was overruled by a combination at least of Treasury and State, and perhaps the President's economic advisers. So you had two Cabinet Secretaries with real departments, plus the economists weighing in against the Office of the Special Trade Representative.

Does that seem to you to be what you might call an equal representation of views?

Mr. MINCHEW. Well, it probably is not an equal representation but because I have such high regard for Bob Strauss. I would probably think it was unequal in his favor rather than the other way around.

[Laughter.]

Senator HEINZ. Leaving personalities aside.

Mr. MINCHEW. Leaving personalities aside.

Senator HEINZ. Whether we like it or not—I happen to like it—we are a Nation of laws and not of men. Could you just as easily have somebody not as persuasive as Ambassador Strauss in that job?

Mr. MINCHEW. Leaving personalities aside and going back to the answer I gave Senator Danforth, I think if you had a Cabinet level officer making the arguments for trade policy decisions, a Cabinet level officer is more likely to swing his or her weight effectively with other Cabinet level officers, Secretary of State or Treasury, or other Cabinet level officers.

So I think trade is so very important that it deserves having a member of the Cabinet, not just a Cabinet level person, looking out for its interests.

Trade is important in State and it is important in Treasury and it is important in Agriculture and it is important in Labor, Commerce, and Defense. But it is not the most important thing in any one of those Departments, and as a secondary or tertiary interest in all of these Departments, it never seems to percolate up consistently as a top priority.

If you had somebody in there arguing for trade turf as opposed to foreign policy turf, rather than somebody arguing for foreign policy turf who also has the responsibility to argue for trade turf, we would be better off in terms of having trade interests, labor interests, business interests, importing interests, exporting interests, and consumer interests adequately considered in the policy decisionmaking process.

Senator HEINZ. One of the things that always concerns me about any President, this President or any President, is that various agencies will understandably become a captive of their clientele, their constituents, so to speak and with, therefore, somewhat predictable tunnel vision will recommend to the President things that may sound good or may seem justifiable and which if the President isn't exceptionally alert or well plugged into the way things work worldwide, he may accept. While they may be valid in and of themselves, the President will give up something, let us say, advocate, the elimination of DISC or the deferral or elimination of the foreign tax credit without getting anything in return for doing so from our international competition.

I don't know whether it ever crossed the President's mind to use the many levers he has, whether it is on nuts and bolts or on reference pricing is steel, or a variety of other opportunities he has to obtain the breaking down of barriers to more open competition.

We live in a world where we probably have the most open markets. We also happen to be the highest market. We are nonetheless confronted with a Common Market agricultural policy, and we are confronted with a variety of nontariff barriers in Japan and in Europe. The recent agreement negotiated by Bob Strauss with the Japanese is fascinating if you see in it the nontariff barriers he got rid of such as some of the very technical ones relating to the importation of citrus fruits, et cetera.

There are people out there, in other words, who are very sophisticated in the kinds of barriers they erect against us.

It seems to me that we should be equally sophisticated in using every opportunity, every lever, if you will, to negotiate away those all too numerous and counterproductive barriers.

I happen to believe in free trade but believe that we practice it much more—much better than anybody else and, unfortunately, as we lower our barriers and eliminate our leverage we do so unthinkingly without taking every opportunity to get the other people to do the same.

Would you agree with my observations that we do not take advantage of the opportunities that we do have—and I have cited a few examples or hypothetical examples, if you will—and if you do agree, would you think that the Department of International Trade and Investment as contemplated under S. 1990 would greatly assist, moderately assist, or not assist very much in improving our performance in that regard?

Mr. MINCHEW. Yes, sir, I do agree, and I think S. 1990 would assist greatly in alleviating the problem. Let me expand.

Our trade policy resources, personnel resources, are fantastic. We have great trade experts throughout the Government, but all these experts spend their time on the crisis of the moment—it might be footwear today; mushrooms the next day; 3 months later, televisions; 3 months later, steel—automobiles, electronics, we know what they are going to be.

But we spend all of our resources on the crisis of the moment and we are not thinking about what needs to be done now to have a better trading position 2 years, 3 years, 6 years, 20 years from now.

We have the resources in the Federal Government; if you can free many of us from having to fight the turf battles and fight the crisis battles of the moment, you would, I think, see in the Department a more forward sort of thinking and planning for our trading posture and position not only 5 years but 25 years down the road, and that is what is the most serious deficiency of the present system.

We concentrate our resources on whatever crisis perks at the moment, and 6 months from now we will all be working on a crisis just as serious, but on a different subject.

We should be able to take part of our resources off, as I think in a department level agency, you could do, and put them over here and say, now let's be doing a better job of averting problems, let's do a better job of planning for the future, let's do a better job of seeing what we should do about DISC and foreign tax. I have been fairly outspoken on those two issues, and I refer to them in my written statement.

Those two issues have probably not had the immediate trade impact because they have been secondary or tertiary interests in the minds of all of those having input into the situation.

Senator HEINZ. Mr. Minchew, thank you, very much.

Mr. MINCHEW. Thank you, Senator Heinz.

I might add that your questions to me are harder than my questions to you at our USITC hearings.

Senator ROTH. Mr. Minchew, I want to thank you for coming today. I regret that time is running on so that if anyone has further questions, I would request that he submit them in writing and have you answer.

Mr. MINCHEW. I would be happy to try and respond, Mr. Chairman.

Senator ROTH. Thank you very much. We appreciate your being here today.

At this time I would like to welcome Mr. Harald Malmgren.

Mr. Malmgren, it is indeed good to have you here as one who has had 15 years of experience in the trade field and several Government agencies both under Republican and Democratic administrations.

His last Government experience was as Deputy Special Trade Representative serving with my good friend and former classmate, Bill Eberle.

Mr. Malmgren, who now heads up his own consulting firm, is an economist by training and is, of course, the author of many outstanding articles and books on international economic issues.

He is generally regarded as one of our country's top experts in this field. There has been much demand on your time by the Senate this year, Mr. Malmgren, and we appreciate your taking time to appear before our committee.

I am going to ask my colleagues—I started out by taking too long in my own questioning, but we will start the 10-minute rule so that we can proceed as rapidly as possible.

In the interest of time, Mr. Malmgren, you may read your statement or summarize it; if you do the latter, of course, it will appear in its entirety.

TESTIMONY OF HARALD B. MALMGREN, PRESIDENT MALMGREN, INC.

Mr. MALMGREN. Thank you, Senator Roth.

I won't read the statement but I will leave it with you for the record.

Since I am no longer in the Government, I don't have to be quite so careful in what I say, so I won't follow the "text of my staff," as one tends to do in Government service.

It is a pleasure to be here before you. I remember, Senator Roth, when you accompanied me, along with Chairman Ullman and several others, on an expedition to Geneva in February of 1975, when we formally launched the present trade negotiations. I know you have followed these issues for some years, and that you have become a widely recognized expert on the matters involved in this bill you have sponsored.

It is also a pleasure to be before this committee because of Senator Ribicoff's role, and his major influence in the trade policy area, through the Finance Committee and through his various public statements and reports on trade over the years.

I recall when Senator Ribicoff made a statement in 1970 calling for a new effort to coordinate trade policy and investment policy internationally. Over the objection of various departments of the Government, especially the State Department, other governments in the international community did decide to follow his initiative. This is a good example of a case where Congress took the initiative, along with other governments, and OECD, and all this led to the establishment of the trade negotiations in Geneva.

It is a subject that I have been interested in for many years, as to how we organize our decisionmaking. Partly by being involved in the decisionmaking, and partly by sometimes standing back from it and explaining what I have been doing, it has been from early in the morning to late at night, a subject which has fascinated me. It is an area of debate in which nobody is satisfied.

This is a good point at which to begin to understand that something is wrong. In the time I was in the STR offices, and when I was with the President's Advisory Council on Executive Organization, I gave a great deal of thought to this. In the Advisory Council I did a good deal of the work which led to creation of the CIEP, through the Council members, Mr. Ash and John Connally and others.

Having given birth to that, I have had a lot of time to think about whether it was a good or bad idea, and what is wrong with what we are doing now. I would like to put my statement in the context of today, into the politics of today, rather than go over the long history and the theory of all this.

It was foreseeable 2 or 3 years ago, and various economists have said so, that we would today be in a very delicate international situation, and that the economic recovery, if we had one, would be rather infeasible without careful management, and that the international trade problems would create job problems at home, and trade problems would create farm problems at home, et cetera.

Nonetheless, we didn't adopt, and we didn't do very much differently than we have always done. We stimulated at home and we expected everybody else to do the same, and those who didn't stimulate enough, we blamed for inadequate effort.

What happened was the international economy went through the worst recession in 40 years. People don't like to say it that boldly, but that is what happened, if you look closely at any of the statistics. The subsequent recovery has, in fact, been very weak and uncertain.

The outlook today for the U.S. economy, if I car start with that, and give you a context for this discussion, the outlook as viewed by the executive branch is for 4½ to 5 percent growth in GNP this year. But the private sector concensus forecast is something more like 4.2, and I feel that that is even in doubt.

The sectors that should show strength, in fact, are weakening. There is no real recovery in business investment, and in fact I believe real business investment is likely to grow much less rapidly this year than last.

Now, what does that tell us? There are few signs of confidence in the medium term and long term, there is cost cutting underway now, and corporations are getting more cash rich, basically laying back waiting for better times.

But, our crisis of confidence is not unique to the United States. It is even more acute in Western Europe, Canada, and Japan. It is a common disease. There is no good investment outlook generally; unemployment is rising in most of the economies of Western Europe, and elsewhere; the stock market reflects this, and people don't want to buy now, they want to sell, and that tells you something.

The turbulent foreign exchange markets are quite revealing in their general disarray. We don't know how to describe confidence.

We talk about balance-of-payments problems here and there, or the trade imbalances here and there, but the truth is we have had deficits over past years when we had a strong dollar. Why the dollar is weak has little to do with deficits. It is primarily due to confidence.

People want to hold out, and that is a political more than economic question. So to get to the heart of this problem, we are talking about a general lack of confidence, at home and internationally, in the workings of the international system.

There is a tendency to feel the governments have lost control and that economic forces are more or less running loose.

Moreover, there is a tendency in the business community to look at anybody's policy in any government as reactions to crisis, one by one, dealing in a sort of an experimental way, hoping to somehow get something going right.

In my view it is like looking at great ships of state maneuvering around in narrow straits in a fog without really keeping in touch with each other and with the radars turned off.

In that kind of situation, I would get out of the market, too, if I had enough to put into it in the first place.

Now, the Europeans are calling for financial intervention, and the experts have found no way to do that effectively. Everybody agrees that a partial effort would aggravate the situation, because it will appear to fail. To stabilize the markets you have to quell the fears and stabilize the expectations of the market forces. You have to convert the rush into greater liquidity and mobility into a return to long-term financial and investment commitments. The movable has to be persuaded to sit still, in productive uses.

You have to take the liquid surplus of OPEC and convert it into new jobs. In other words, we need the surpluses out of money and into long-term investment. To accomplish this, and to turn the United States and other economies around, a common purpose has to be explained to the public and the markets. A real sense of purpose and common objectives is needed.

In the meantime, without that, governments are in a position where they resort to protectionism on this issue or that because there is no alternative.

They feel they have to shore up the job situation. And where that isn't done, most governments find they are subsidizing steel mills, shipbuilding facilities, et cetera. That creates problems for other countries that don't subsidize or intervene.

That is one of the predicaments we find ourselves in. The present policy everywhere is to pursue what I call the politics of blame—"It is not our fault, it is their fault. The Germans did it, the Japanese did it," and so on.

This led to the so-called locomotive theory—"Why don't they do more so we don't have to do so much?"

Frankly, whether it is right or wrong, that theory is a theory. It is an economist's dream, and what it says to the markets is, I don't know whether the Germans are right or the Americans are right, but I do know that there are divisions, and I think I am getting out of the way, because these are juggernauts in conflict. That is a bad signal to the market.

All of that confusion is symptomatic of a fundamental feeling that governments don't manage their economies very well. They trip over themselves, with too much intervention in the wrong places. Somebody has to pull it all together.

Nobody believes the President can do that. He does not have magic, he cannot wave his wand and change everything. It is too big a job, too complex. In fact, many businessmen believe nothing can be done at all, so why bother to worry. It is just chaos.

Now, it is not surprising, therefore, that Congress should be concerned with these issues. You get constituency pressures from people affected by some specific problem, whether it is a decline in grain prices, or whether it is somebody worried about some nontariff problem that creates difficulties in chemicals or equipment.

I go through, in my prepared statement, the history of how Congress reacted to this problem in the past, with all the complaints coming in, and there was instability internationally. This is not the first time this problem has come up.

On the other hand, this happens to be the worst period of confusion in the postwar period, even if it is not the first.

Congress took the initiative in 1962 to take trade and put it together in one place, away from the State Department, over the strong objections of John F. Kennedy.

I remember at that time I was in the defense area, but I was quite familiar with the debate with the President. And, at that time the President of the United States very vigorously objected to the creation of a trade office. It was the Senate Finance Committee, in particular Senator Byrd, which forced the creation of the Trade Office, in cooperation with Chairman Mills.

As you know, when I worked with you and the other members of the Finance Committee, in drafting the Trade Act of 1974, again the Senate Finance Committee took the initiative and said, let's do something to consolidate this further. The President, then Gerald Ford, objected and OMB objected, and everybody, even STR objected.

We in STR had to object, at least as a matter of executive branch policy. Still, you consolidated the President's Trade Office, and wrote it into law, and changed the status of the people involved to Cabinet rank.

Now, in retrospect, it was entirely justifiable to have done that. To me, the role of Congress in filtering and boiling down trade disputes is a crucial part of the American policy process. What we are talking about in trade is impact on particular people, in particular towns, particular farm groups. To get that into a national interest formulation you need to have a lot of input, including from consumers and users, so you can weigh the generalities. The executive branch doesn't do that very well.

So, in a sense, the Congress took over. But there is more. The Constitution gives this power to the Congress anyway, and over the years this is one thing I have tried to drum into the heads of my colleagues, that it was not a matter of bucking the Congress. It was a matter of who was boss and the Constitution is very clear that the Congress regulates foreign commerce. And it is also clear—although I am not a lawyer and I often have had fights with lawyers—that in the courts, commerce is defined as pretty much everything that happens of economic character between two nations.

I could go through the constitutional aspects which I have done in short form in my prepared statement, but, basically, my view is not only should Congress be involved in policy formulation but by nature of the Constitution, it is inevitably involved.

Therefore, if the Congress wants to delegate some of these powers, it has to think through how to do that and if, in fact, there is confusion in the executive branch, it must also be laid at the doorstep of Congress that there is confusion, because that is where the orders come from under the Constitution.

Now, the confusion that can arise is terrible, when you negotiate with other countries, because one sits down at the table, and say something or other, and try to sound ominous, and you rattle your sword, and you shake your cards and put more chips on the table, and somebody says, "That is very exciting, but what does the Congress think?"

Then, of course, people come around Washington and visit you all, and most Congressmen turn into diplomats when confronted by a foreigner, and it gets to be very confusing.

This is why I guess some of us thought we had to work together more closely as between the Congress and the executive, because, otherwise we were all going to be out negotiated. So we established in the Trade Act an elaborate congressional advisory process.

Now, the Trade Office has worked rather well, I think, and you only have to look at Bob Strauss to say that that s a fantastic operation, one of the few operations that works in any field in the executive branch. And I think that is both the power of personality and the effectiveness of the office.

But more and more issues are becoming intertwined with those specific functions, and I think, Senator Roth, your bill calls attention to those problems, Trade policy is having a growing effect on the domestic economy, both political and economic, on industry, farming and on jobs.

Now, we talk about industrial jobs a lot, but in farming, half of our grain production in the United States goes to world markets. If the world market goes down, the farmers' income goes down, if the world market goes up, so, too, does income of the farmers, and you cannot separate the domestic and the foreign any more. It is one big market. It is all rural America we are talking about.

The financial markets are affected by trade, and trade is affecting world financial markets. World debt is being accumulated, and a problem is said to occur on banks' national exposure in world debt, with advice coming in such as let's not have so much lending going on.

But people don't borrow money to put in a suitcase. People borrow money to buy goods. Whose goods? They are buying our goods. The reality is that most of the heavy borrowers turn around and buy products from the United States, Japan, and Europe. For the United States, for example, almost a quarter of our total expotrs now go to the non-oil-developing countries, who are the heaviest borrowers.

So, if we tell them to borrow less, they buy less from us. Trade and financial issues are no longer separable. If the Comptroller of the Currency says something about debt and national exposure without talking to trade people, which has happened recently, what we end up doing, basically, is cut off our own arm, which is not very wise.

But that, in fact, is what happens often in this field. You cannot separate these issues. Now, the institutional decisionmaking system, or the policymaking system we have, doesn't recognize any of these interactions.

I am going well beyond the points made by my good friend and colleague, Chairman Minchew, but what happens also is that almost every issue gets disputed because of the impact on particular people. So the issues are appealed.

What happens with appeals? Well, you members of this committee get involved, and every other Congressman gets involved; farm groups, oil lobbies, textile people, everybody gets involved. The issues gradually converge then on the President; and even worse, more and more of this is going to the courts, and that is creating utter chaos.

The Congress is continually being pushed to do something, legislate, change the rules, pressure the President.

It is an impossible situation from the President's point of view. He is overworked now with decisions in this area. He has appeals, he is confronted by daily crises, and I can say that in my experience, the Departments have historically failed to protect the President from these issues. They have failed to develop the necessary political consensus, before the decisions had to be made.

Now the kind of issues that reach the President are usually specific and narrowly defined, that what do we need to decide today. Whether it is the situation in southern Africa, or a matter concerning Yugoslavia—let's focus on what we have to decide today.

Anything that is controversial seems to gravitate to the President, but always in this very narrowly defined form. He is not a superman, nobody is, and he needs some defenses around him to take care of these problems.

In my experience around the President, I think the President who handled this in the past best was President Johnson, who was very skillful in handling trade.

I think it is pretty clear that you need somebody to be the arbitrator between the warring factions, and you need someone to enforce the decision once it is made, because usually decisions are ignored unless the bureaucracy knows that somebody is there chasing it later.

That means somebody really has to be on that phone every day: "What did you do since yesterday?" If as an official you know that call is coming, you will implement—and fast.

Someone has to handle appeals and manage relations with Congress and private public bodies. You can't ignore these people, because they have forced the issue up, and they have the right to be heard.

So, in a sense, the system requires something at the top to handle the array of problems around the President, just like the chief executive of a company has to be protected.

In my view those specific functions must be handled by a very small staff around the President. That is a separate political problem, and a decisionmaking problem.

But, conversely, to make that role, and the role of the President himself workable, you do need somehow to change the departmental system itself, because there has to be a way of getting this view from the country at large before it gets to the White House. There has to be confidence in the business community, and in labor and agriculture, that they are being fairly treated, and that maybe they won and maybe they lost, but they got heard in an adequate way, fairly. And the fairer the process is, the less lobbying there will be.

So we clearly have to do something. We have a lot of alternatives.

We can have a Department of Economic Affairs, governing both domestic and international economic issues.

We could, on the other hand, link international economic issues with foreign policy and national security. I am sure you have thought this all through in putting your own bill together.

We could bring together all international economic issues in a department of international economic affairs.

Or we could have just a department of trade.

Or we could link, as S. 1990 does, trade and investment policy.

Or we could have a new Cabinet committee. Over the years, Cabinet committees have been the most common solution. When in doubt, create a committee. Committees are good for a lot of purposes. They can put contenders off in the corner, where they can argue, get tired, hold meetings late into the night and give up early.

We used to have a working rule with disputants who were very vigorous, and that was to call a meeting on Saturday afternoon, in which case they give up in 30 minutes.

But Cabinet committees have not worked very well. Their decisions always end up being appealed anyway. The job is never accomplished properly.

The experience of the 1970's, of rapidly growing interdependence, external shocks, grain shocks, oil shocks, general overloading at the top, makes me doubtful whether my views of a few years ago, to do all of this at the top, are any longer valid. I doubt my earlier views are any longer relevant.

It seems to me we do need one strong agency to force compression and assure cohesion, compression being a matter of banging heads together. The accelerating complexity does require staffing out in some new way.

We have, for example, the Department of Energy. In dealing with other governments, and shaping energy policy separate from the rest of our international economic policy, is not, I say this in my statement, not a sound way. I really think it is madness, because of the interaction of oil policy and gas policy with trade policy.

If you look down the road, in the situation developing between us and Mexico about oil and gas, I am sure you would be very puzzled by the confusion over the gasline and U.S. policy. Mr. Schlesinger is saying no to the gas companies and Mexico. Down the road, the Mexicans are surely aware that we will need their gas 6 or 7 years from now, and at that time they will have a lot of leverage. And then they must surely think about manufacturing of the labor-intensive sort. They could confront us at that time about their job problem and our need for gas and oil, and say, "You gave me a hard time 6 years ago, I remember. Now let's talk about immigration and access for Mexican manufacturers."

That kind of policy problem I don't think you can leave to the Energy Department.

My own negotiating experience is, if we are left with divided positions behind us, as we approach the negotiating table, we will be divided at the table and eaten alive.

It seems to me the biggest part of our efforts in the United States is that we create a common concept, a common purpose, in a common effort. That is why I put the issue to you in this broad, bold way. I think basically you, the Congress, must pull it all together, to make people understand we have it in hand. This is partly politics, and partly psychology, not just economics and rationality.

But the only question really that I have about your own proposal, Senator Roth, is whether it should be broader or not. Just how much can you take on without having indigestion is a question I think you will have to continue to discuss, as you proceed with this bill in this committee to a final product.

As I have pointed out, development policy and export financing, these are all related to project exports, whether they involve Bechtel or Brown and Root, or Westinghouse, these people are directly involved, and that is trade policy.

Right now we treat such matters as separate issues. So the real purpose of your bill has to be to strengthen the U.S. bargaining position with other countries in all aspects and to give confidence to world markets in our management of our whole economy.

It's a way of recognizing the reality of the "eco-politics," as Senator Ribicoff refers to it, and recognizing that we do in fact have a worldwide crisis of confidence.

In my view, if the rules of the game settle down, the fundamental economics will go back to work. If we want to settle the market economy fears, and get domestic and world investment going, and create jobs and regain confidence in the future, we have to stop our arguments with other nations, forget the locomotive theory and the blaming of others, and get to work figuring out what is, in fact, our true national interest.

We are a very powerful country, if we just pull ourselves together. But I would hate to have to negotiate for the United States now, if I may say so. It would be very difficult because I know everything would be just dribbling through our hands.

In my view this is constitutionally your business, and whether the executive agrees or not, I don't think that is relevant. The Constitution says this is your problem.

Thank you, gentlemen.

Senator ROTH. Well, thank you, Mr. Malmgren, for your very interesting statement.

Let me start out by saying that I consider our bill what I call a working draft. We have to start somewhere, and I am fully persuaded that we need some means of coming to a better decisionmaking apparatus than we have now, both from the short-range point of view and from the long-range point of view.

I am persuaded that it does require institutional change. I know that is an objective of every new administration that comes in to have better coordination. For example, when the Carter administration came in, there was a lot of talk about how, because Mr. Lance, Mr. Blumenthal, Mr. Vance, and all, were good friends, we could, by keeping it on a close personal basis, work out these problems, but as time goes on institutional rivalry and demands of the times prevent that.

I wonder, drawing on your experience, if you could give us some examples where lack of coordination, lack of centralization have hurt the work of the agency with which you were associated.

Mr. MALMGREN. Well, take trade policy to start with. That was a question raised in some of the previous questioning of Chairman Minchew, having to do with unfair trade practices.

As you know, we have an array of provisions in the law, and an array of potential actions that deal with these matters. Yet even now we find the courts getting more and more involved, which is really very, very unfortunate.

Senator ROTH. Excuse me.

Mr. MALMGREN. Well, we have the FTC, the Justice Department, ITC, the STR group, and then we have appeals going to the courts, which is an improper procedure to my way of thinking, with a judgment being examined in the courts.

We have a major case going to the Supreme Court now on the Zenith TV case, and whatever the merits—I am not arguing the merits—the fact that the case goes to the Supreme Court at all is very damaging to the United States in its negotiations abroad.

The Supreme Court should not have considered the case, or considered it only under strict guidelines on a very, very fast track basis. Otherwise they should not have gotten into it. I don't think any of the lawyers fully understood the consequences.

If I were negotiating for the parties on the other side, I would have said, "Let's have a little break in the world trade talks and wait for the Court." It's a very difficult problem regardless of the merits.

Now, if you take these unfair trade practice issues, Chairman Minchew is right, there is a certain overlap between predatory practices and dumping. What is fair and what is unfair? I don't know. Years ago I did a lot of work on fair and time costs, when I was a budding economist, and I thought I knew what I was doing, and I wrote an article on what conclusions could you draw from cost data. The conclusion of the article was you couldn't draw many conclusions from cost data, because costs were all different as between companies; basically, the accountants fib quite a bit.

There are not ultimate truths and realities in that field. It is a murky field, accounting is. I would be glad to go into that with you sometime, in the tax area.

So you get instead judgment. Is this assessment sound or unsound? Is it affecting jobs or not? A lot of this is very much judgmental, and the confusion now is such that, "Who is responsible, and where?" The jurisdictional question creates a difficulty for Strauss. How does he negotiate when he doesn't have control?

When you try to work out an agreement with the Japanese on TV's to limit the volume of trade, the Japanese would say, "What about all these other cases? Dumping countervailing duties, unfair trade practices, et cetera. We get clobbered five times over." And he has to say, "I don't control those. They are out of my hands."

That is a very awkward situation to be in. He happens to be a wizard, so he brought it off anyway, but most of us couldn't do that.

Take food policy. Now, my experience there was that, I could think of crises, such as on a Thursday morning near the very beginning of October 1974, when we got a call from a grain company that sold 1 million tons of grain to the Russians, and we had a White House economic coordination meeting, and everybody said, "Holy smoke, we planned on no sales to the Russians this year. What do we do now if the market panics and we get these inflationary spirals and who knows what else?"

So we all went into a tizzy and ran around, and we had all the assistant secretaries of the Government tied up in meetings, and the President's staff was tied up, and at the same time we had several other crises. It was a typical example, we couldn't handle it. Everything stops when you get to a crisis.

Friday got worse, and we had to get into a meeting with Kissinger and the Russians, and we stopped the world grain market all weekend and created utter chaos doing that; and in the following week Congress was confused as to what was going on, and so we had to spend a lot of time preparing briefings for them, as well as the grain trade.

In the meantime the Russians unexpectedly walked off with a lot of grain, and the impact of that was what?

Well, we can say we had a problem in the grain area, but we had more than that.

The Europeans and Japanese said, "By the way, we have been negotiating with you a long time about solving our nutritional problems, and we were even maybe going to do something on this trade negotiation, but you guys in the meantime are selling to your enemies and taking away world grain supplies. Now we have inflation as a result of your unexpected sales."

So it makes us feel very awkward, because one has to look sheepish, and say, "I don't control that. That's over there, in another part of the Government."

In this particular case I was called in, and I happened to control this weekend operation, so I felt some satisfaction in trying to turn off the tap.

But that kind of misadventure happens all the time. It's very confusing as to who is responsible. If you have a crisis and the White House says who handles this, sometimes it takes several hours to figure it out.

Senator ROTH. We had the same situation with the soybeans.

Mr. MALMGREN. Yes, exactly. And the Japanese came back and said, "Well, all right, you know, you have a right to turn off the tap like the Arabs, that is your business, but how do we then say to our farmers that we should become more dependent on you, make room for grain, and so forth? How do we persuade them you are reliable, when you turn on and off this tap as it suits you?"

These are trade issues. But then you get to issues this committee considers such as nuclear energy, and proliferation of some aspects of nuclear power production. The decision to end Government enrichment production in the early 1970's was made in the abstract some place in the AEC, without much consultation with anybody else. Lo and behold, we got the Brazilians agitated, and then there was the sale by the Germans to Brazil, and the Germans and Brazilians got excited, and they were talking energy and trade, and we were busy talking proliferation and nuclear security, and there was total confusion.

Going back through the history of this action, it was a trade issue in terms of export sales, and it was also an energy issue, but above all we in the United States created the German-Brazil crisis. It wasn't the Germans and Brazilians, it was our fault, we made a crazy and arbitrary decision. That decision on enrichment production policies should have been tied to our long-term export policy, long term as well as our proliferation policy.

Now, when you come to areas like the international financial area, and its effect on trade, our negotiators in Geneva are focused on trade. Periodically you get to the long negotiating days, and late in the day you get to drinks and dinners where the negotiating really gets done.

Somebody will lean over and say, "By the way, given the exchange rate uncertainty, what do you care about the tariff today, because our concessions will get washed out by the exchange rate. You cannot be serious."

And you have to say, that is not my problem, that is over there in Treasury or the Federal Reserve; and, of course, that is the only

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answer you can give. But the thing is that this division of responsibility is exploited all the time: "you people and the financial people are not really talking, are you?"

Well, in my view, it is not just through money flows, but through trade that we have to consider these. If you talk about accumulation of debt, you are also talking about U.S. export sales, so you have to have some concepts of where that all goes. They don't borrow money and put it in a suitcase.

Chairman Minchew has talked about the need for research and planning. I will give examples of this need, in high technology industry and data processing—where we have no concepts of where we are going.

In data processing, the Japanese industry is going at very high speed, and converting very fast, nip and tuck with IBM and with the rest of our best, and we have no real concept of how we want that area to move in relation to shoes and textiles and some of the troubled sectors over the long run.

That gets into many, many areas of trade policy. Export controls, the dealing with the Soviets and Chinese are all involved. Subsidies to trade; tax policy toward these types of industries, and merger policies are all relevant, for example. The success of Japan lies in mergers—forced mergers—more than subsidies.

Another example lies in our issues with Canada and Mexico. In my view, we have not even begun to think about the North American base, and when we think long term about oil and gas, it is very clear that this is a big chunk of the next 10 or 15 years. Canada and Mexico are not going to be very pleasant in the way they supply us, if in fact we have a crisis, unless they have something from us in the area of trade. That is going to affect jobs. Unless we think ahead, we will face other displacements and disruptions and dislocations.

So, if we work with them now and plan it, fine, but if we don't we won't have easy times later. How do we negotiate in Geneva on trade if you don't know what you are going to do about oil and gas here.

Senator ROTH. I have a further question but my 10 minutes are up. I will call on Senator Danforth.

Senator DANFORTH. Hasn't Congress pretty well established the trade policy for this country and isn't the problem that the executive branch is not enforcing the trade policy, that they are viewing it as a matter of international politics and, therefore, the policies that Congress does establish are lost in the shuffle and in the administration and wouldn't the establishment of a new Cabinet-level department which would further limit the role of Congress that it has with respect to its arm in the policing or in executing trade policy with the International Trade Commission tend to wipe that out; and wouldn't this further strengthen the position of the executive branch to further water down the policy the Congress has established in order to serve other executive branch functions?

Mr. MALMGREN. I don't think so, Senator. I think that one of the problems in relation to the Congress and the executive is the diffusion of responsibilities.

Senator DANFORTH. Is that what?

Mr. MALMGREN. Diffusion of responsibilities. This makes it hard, as you will see, to decide where you put your pressures, or where you put your question, or who you talk to, if you want to try to get something heard in terms of your own constituents.

I think, basically, it is very important to have the process of Congress and the executive talking with each other regularly—as I say constitutionally—but also because you cannot make a good decision unless you weigh the national interest. For you in the Congres, you need one-stop shopping. You have to have some place where you can go and say, here is the problem, you guys think about it and come back to us with an answer.

If you try to fan out and cover the whole executive branch—good luck. Business pays a lot of people in this industry of Washington to keep track and they charge a lot of hours trying to figure out where something is—particularly law firms. And, you could never duplicate that operation with any staff system.

So, in my view, the role of Congress would be strengthened by consolidation in the executive branch of the policy issues, and it would be easier to make good decisions if the two bodies, Congress and the executive, were, in fact, working together.

Senator DANFORTH. Why not consolidate it all in one place by putting it in the International Trade Commission?

Mr. MALMGREN. Well, where you put it I am not arguing right now. I could go through the merits of putting it in Treasury, or in the White House, or putting it somewhere else. I am not really prepared at this time to say anything about that particular point.

The ITC is a half and half kind of body, partly judicial and partly judgmental and political. It is somewhere in the middle of the process. But it is not really the creature of the Executive, it is much more the creature of Congress. It is a judgmental body, it weighs facts, but judges them politically too.

It is not a line agency; and, talking about line agency functions, such functions are diverse and complex, even massive; commodity negotiations, export financing, gentleman's agreements, discussions among trade associations, vast—both multilateral and bilateral—aviation, fisheries agreements, commercial agreements.

The ITC as a research and judgmental body could not cope with all that. So, in a sense, you could say, put it in there. But then you have to say, change its nature completely and create something else. So, whether you house it in that part of the city, or over in the buildings around the President's buildings, or someplace else physically; in the final analysis, you have to create something new and different.

Senator DANFORTH. It is not the part of the city, it is the question of who it responds to.

Mr. MALMGREN. Well, I think today the STR, in the way it grew up, has considered itself highly responsive to Congress. It has often been criticized by other agencies for being too sensitive to Congress.

Certainly, in the time that I was the deputy STR, the second time I was in that office, Bill Eberle and I, and Bill Pearce, were constantly criticized for spending too much time on the Hill.

We were up here all the time. We drove some people in the executive up the wall about our consultations, but I think we believed that the way to do this was to work together. I think Bob Strauss in the same way stays in close touch with the Hill. I don't think there is any big problem there.

So, success depends on how the process works, but I believe that Trade Office is in fact working well in relation to Congress. So the problem is not what it does, but rather it is all these other things that impact on it. That is where we are becoming weak, fast, and where we are creating the image in the international markets of being very confused.

Senator DANFORTH. Thank you.

Senator ROTH. Senator Heinz?

Senator HEINZ. Yes, Mr. Malmgren, in your testimony you suggest on page 18 that, if I understand you correctly, all commercial questions in the sense of the Constitution's use of the word, "commerce," be included in the new agency we are talking about.

Is that to say that in effect that you would have favored rolling in most of the functions of the Commerce Department into this agency?

Mr. MALMGREN. Well, forget I am no longer an insider, I am a private person. I am not fighting turf, I am looking at the issue very dispassionately. From some experience with several administrations—I came with President Kennedy to Washington and worked with each President since then—but in my birds-eye, detached view, it would be that Commerce has some functions, but it also does other things.

It has the Bureau of Standards, the Census Bureau—these are separable questions. And there is a question about what you should do in economic affairs at home, whether industry and labor and other issues should be together.

That is an old issue, President Johnson raised it, I remember, in asking whether we should have a Department of Economic Affairs.

But what I am saying is that on the international side, the trade issue is really something that ought to be considered together with other issues, and what I mean by that is if I were to negotiate with some particular government right now, I would want to know what is the whole bag of tricks, what kind of leverage do we as a Nation have: what is in the airlines area, what is in the Treasury's area, what is in the mainstream of the trading area, what is in the commodity area, what about engineering, how much money do we have parked out there, and how are the banks going to feel?

I would want to know the whole thing. I would like to have it in one place. That way the United States is strong. Otherwise it is fairly weak.

Senator HEINZ. You are familiar with a number of functions, not only from Commerce but from the State Department and from Treasury as well; how would you most accurately characterize the problems that the State Department or the Commerce Department or the Treasury Department has in being responsive to the Congress on trade matters.

You seem to indicate that other things do get in the way. What are those kinds of things? What is the nature of the constituencies at the Treasury or Commerce or State that we must contend against; and, to the extent you care to look into a crystal ball, what arguments from those constituencies and those agencies should we be prepared for?

Mr. MALMGREN. Well, you can make this discussion kind of long or kind of short, but, basically, in the time we have, let me just say that the State Department problem is fairly simple. You have very capable career peole, whose job it is to analyze what is happening abroad, interpret it, and advise the President.

That is the way the law is set up, that they advise the President—because foreign service officers are appointed by the President—and they advise on what the consequences abroad will be for him.

It is not their assignment to worry about the consequences to Pittsburgh or to St. Louis or to the farm lands of the West.

They may sometimes thing about such matters but it is not their responsibility. If you happen to get a very good officer who does think this and that——

Senator HEINZ. You are saying they are a bit more conscientious about Ankara than they are about Pittsburgh or Peoria?

Mr. MALMGREN. That is right. That is why I think trade negotiations were pulled out of State by Congress and put it in a special office.

When you take Commerce—I think Commerce tries to have domestic industrial interests. It does forecast industrial production, has a big area of export promotion, but it has to worry about import problems, and its people specialize in various industries.

Senator HEINZ. If I may interrupt, I get the impression that over the years no matter who was Secretary of Commerce that somehow it never really gets very involved in these trade issues.

I don't know why that is.

Mr. MALMGREN. That is correct.

Senator HEINZ. It was created to be an advocate of a healthy private sector. Is there some problem with the Commerce Department?

Mr. MALMGREN. Yes; there is.

Senator HEINZ. That doesn't meet the eye?

Mr. MALMGREN. Washington listens to power. If you have it you get heard. If you haven't got power, you don't get heard. So boiled down, the Commerce Department has economic research capacity, and it has some expert trade promotion activity, and it has the Census Bureau, and it doesn't have much else.

So it doesn't have power, it cannot do much to anybody, cannot harm anybody, all they can do is make noise. At this time, Commerce is the result of some change in the structure of the Government that occurred a few years ago in this case, it has become a spinoff of what is left.

Senator HEINZ. You omitted the Weather Bureau, I think.

Mr. MALMGREN. Well, I am sorry, that is very important to farmers.

Senator HEINZ. As a demonstration of power, look what it brought us this year.

Mr. MALMGREN. I appreciate that, yes.

But in a sense, that is the problem in Commerce. Let's say when Pete Peterson was Secretary of Commerce, he tried to reinvigorate the system, and get it launched into new activity, particularly East-West trade.

It was starting to edge up as a department, but he left and it sagged again. But it is just not a matter of personality, it is the question of what the function of that department is, because it is not clear what it is.

Senator HEINZ. In the Commerce Department, there is a portion of it that is responsible for "trade and industry."

Mr. MALMGREN. Yes.

Senator HEINZ. Assistant Secretary Weil is now in charge of that.

Mr. MALMGREN. Right.

Senator HEINZ. What is that mission?

Mr. MALMGREN. Well, in that broad area which he manages, I think, quite well, he is rather an outstanding figure. I think in the entire Government he stands out, and I say that without even knowing him. I see from the outside what happens, and I am quite impressed with how he handles it, but his area covers trade promotion activities, backstopping the multilateral negotiations in Geneva for industry, touching base with all industries through advisory committees, and worrying about the analysis of the import impact, and ultimately trying to get some foreign purchasing going with the United States-Japan buying missions now underway.

These are various and sundry jobs having to do with industry, not agriculture. Let me remind you that in 1962, some people said, let us take trade out of State and put it in Commerce. Then there was a big bang, an explosion from Labor and Agriculture saying, no, Commerce represents industry and we are not having that.

So, various people said put the policy in the Labor Department and Labor said, that is great, and everybody else said, that is terrible. The farmers said we would be happy to take all of trade, but nobody else thought that was a good idea.

In a sense, it is revealing that the policy and negotiations ended up in the President's office, as an anomaly, because no one could figure where else he should put it.

Senator HEINZ. Could you comment on the Treasury Department and its concerns and overriding problems?

Mr. MALMGREN. I remember saying at one time when the Ash Council report went forward, that there was one logical place, maybe, for trade to be married to something else. That could be the financial area. But many people at that time said to me, no, the financial people are the most narrowminded people in the world. All they care about is exchange rates, financial flows, banking, and they have no interest in marketing, jobs, and their macroeconomics. In the ultimate sense, they don't care about specific job or business impact.

Senator HEINZ. Would you agree with it?

Mr. MALMGREN. Essentially, yes.

Senator HEINZ. I agree with the allegations raised by some that Treasury is not only too close to some narrow issues that you just described, exchange rates for example, but that it tends to be too closely associated with financial interests, banks in particular.

Mr. MALMGREN. That seems to be the problem, and that makes it very difficult to put it in that area of Government. But as I say that is the most logical—let me put it in this political way: Financial issues are very general, they don't touch individuals all that much, whether interest on money is up a quarter or down, you feel something but you don't know what it is. But when there is a trade decision that affects your town or job that is very visible, you feel that. If the farmers' pricing goes down because of falling world prices, that is clear to the farmers.

So, in a sense on the one side we have what the economists call macroeconomics: unclear, diffused, unpolitical; on the other are very precise, very structural, very narrow economic impact questions.

Senator HEINZ. Two last questions, because my time is about to expire.

You raised the very pertinent point that one of the reasons the Commerce Department is not too effective is because it does not have much real power in a city where power is thought to be the be-all and the end-all.

In your judgment does the department created by S. 1990 have sufficient power so it won't become an appendix?

Mr. MALMGREN. Well, you can have power in this city in lots of ways. One is by having a lot of responsibility; the other is by having close ties with the political base in town. So its depends on whether that power base is congressionally oriented or whether it asserts itself by sheer size.

But power is significant if it includes the guidance and policy setting in all those areas that affect the movement of goods and services, including Ex-Im financing, OPIC, trade promotion, and GATT activitives.

Senator HEINZ. What are the essential components of the power?

Is it the ability to have the final say in what we will agree to in terms of tariff or trade negotiations in Geneva? What is the nature of that power?

I think you have accurately put your finger on it, that it has to exist, regardless of its type or kind.

The question is: What are we really dealing with?

Mr. MALMGREN. Well, let me say in passing, you know, about 20 years I have been in Washington, or something like that, and I would say that nobody has the final decision on anything.

If somebody is really vigorous and objective, sooner or later he can drive a hole through your carefully established structure and get his way, if you don't watch it.

Senator HEINZ. Some of us have noticed.

Mr. MALMGREN. I am sure that is right.

And it has been going against you, but——

Senator HEINZ. I was thinking that the President actually thought he had the ability to change U.S. attorneys at will in the Eastern District of Pennsylvania, without any problems. I am thinking of his problems, not ours.

Mr. MALMGREN. The ability to basically consolidate the decision in one place.

Take a phenomenon such as Bob Strauss. Because of his personality and influence on many matters, he can compress all these issues in one place, most of the time. Nuts and bolts he lost. But I think that is the only one he lost that I can think of. But in a certain sense it's by having scope, so you can say, "If you are going to give me a hard time on this one, I am going to give you a hard time on that one," and soon you can get a national interest out of thin air. Just as you do in the Congress when you have a bill before you.

You know, people, we academics—I used to be one myself—the academics put down that political process as bad, terrible. To me it is good. It's the democratic process, and one thing that gives you power and allows you to get to the national interest, is the willingness to take into account diverse interests.

In a sense, if you have ever consolidated, at least in the commercial area, then it is possible to say that, "Jones and Smith, you are going to have to work it out because you've got conflicting interests." But, once you've got a balanced solution, everybody knows we have been fair.

When we go to the President, if he doesn't want to do it, he will have to have a good reason why not. Because you put the issue to him in a balanced way, and there is at that point, the congressional input.

The first memo I wrote, years ago, in the executive branch was on textiles. I remember sending it in, and I know at that time how I was cocky about that memo. It was long and comprehensive, and I thought it was a great memo. Well, it got sent back, and I felt bad. Someone called me up, "It's good, but he isn't going to read it, because it doesn't have congressional analysis. Who is for it and who is against it?"

"Well," I said, "I don't know anything about Congress."

"Do it anyway," they said.

So I did it. And I sent it up. "I don't know whether I am right or wrong; I don't know much about Congress, but I did the best I could."

They told me, "He won't read your analysis either. He wants to know that you thought about it in depth."

But that taught us all a lot about trade policy, from my earlier days. Think about who is for it and against it.

But, somehow, there must be in this input to the man at the top, a serious appraisal, and you must have a serious process to come up with. But the only way to do that is to compress the system in one place.

Senator HEINZ. Thank you, Mr. Malmgren.

My time has expired.

Thank you, Mr. Chairman.

Senator ROTH. Thank you, Senator Heinz.

As you know, Mr. Malmgren, we will always be interested in hearing from you as to what you may think should be included to make this new department an effective policymaking body.

I would say once more that, as always, you have been most helpful to this committee.

Mr. MALMGREN. Thank you very much.

Senator ROTH. Thank you.

[The prepared statement of Mr. Malmgren follows:]

Statement of

Harald B. Malmgren

President, Malmgren, Inc.

and Co-Editor, The World Economy

on S. 1990, Creation of a Department of International Trade and Investment,

before the Governmental Affairs Committee

U.S. Senate, February 24, 1978

I am honored by your invitation to appear before this Committee to give my views on the management of foreign economic policy, and in particular to comment on the general line of thinking embodied in S. 1990.

My earlier thinking on this complex question was expressed in statements I made on two previous occasions before Congress, once on July 18, 1975, before the Senate Committee on Banking, Housing and Urban Affairs (Subcommittee on International Affairs), and again on July 28, 1976, before the House Committee on International Relations (Subcommittee on Investigations).

I am especially honored to appear before this Committe, since the Chairman, Senator Ribicoff, has in my view been over the last several years one of the most perceptive observers of the international economic problems before us. It was Senator Ribicoff, for example, who first called for a new effort at coordination of commercial and investment policies of the OECD countries, in 1970. His initiative resulted in the creation of an OECD "wise-men's group," under the Chairmanship of Jean Rey, and that Committee in turn played a key role in the launching of the Multilateral Trade Negotiations in Geneva, now under way.

Senator Ribicoff, and Senator Long (as Chairman of the Finance Committee), issued a report on November 19, 1975 which I consider still highly relevant. Among other things, they said that:

> The changing sense of power and how to use it is no longer based on old concepts of geopolitics and military strength. It is increasingly based on ecopolitics -- on the application of economic pressure by one nation upon another; by the yielding or withholding of materials or finances; by the willingness or unwillingness to work together to solve common problems.
>
> ...The U.S. Government faces a turbulent international economic situation. The world economy is in trouble, and this has implications for our own economy. All of the major trading nations are in the same situation, with recession, inflation, and potentially weak recovery in sight. Our economies are interdependent more than ever before.

> This turbulent situation requires management. It requires new ideas, new concepts, for dealing with the ecopolitics of the future and not the geopolitics of the past. We are accustomed, in the search for new policies, to look to the Executive Branch to play the role of leader. However, in economic matters, the Executive has not always been alert to new developments.
>
> ...Our conclusion from this survey of current thinking and exchange of views is that the U.S. needs a strategy for dealing with the new world of ecopolitics, and that the U.S. needs to work in cooperation with other nations much more than in the past.
>
> Being called upon to lead, and then being criticized for trying to dominate, is not a good position to occupy. Nor is it helpful to assert independent leadership in a way which insults other nations and embarrasses their political leaders, causing them to express doubts. The time has come for cooperative and consultative diplomacy, generously sharing the credit for ideas as well as tangible contributions. This involves more openness at home with industry, agriculture, labor, and other American interests, and more openness abroad with other governments.
>
> It is time to end the intellectual and bureaucratic separation of economic issues one from another, with parts of each specific issue scattered throughout the government machinery without any sense of overall purpose and general guidance from the top.

This conclusion is very much to the point today -- perhaps even more than it was in 1975. The difference today is that the global economy did go through the worst recession in forty years, and the subsequent recovery has been weak and uncertain. The U.S. outlook, as viewed by the Executive Branch, is for 4.5 to 5 percent growth of GNP in 1978. But the private sector consensus forecast is more like 4.2 percent, and my own assessment is that even that level is doubtful. The major sectors which should show strength are in fact weakening. There is no sign of a recovery in business investment. On the contrary, real business investment is likely to grow much less rapidly this year than last year. There seem to be very few signs of confidence in the medium-term or long-term outlook. Even the little investment taking place in the recovery seems to be oriented towards short-term cost reduction and productivity improvement, rather than fundamental restructuring of our economy to deal with the changing world environment in food, energy, trade, and finance.

The economic outlook abroad is much worse. Industrial production in the other industrialized countries of the OECD group has been declining, or at best stagnant in a few cases. Unemployment is actually rising in a number of key economies. Investment is in trouble everywhere, with real investment declining as a share of GNP, while wages are rising faster than productivity in many countries.

Crisis of Confidence in the Markets

So the crisis of confidence in the future is not just in the U.S. -- it is even more acute in Western Europe, Canada, and

Japan. This is a common disease, sapping our strength, at a time when the need to proceed vigorously to restructure the world economy has never been greater.

The stock market reflects the crisis of confidence. The turbulent foreign exchange markets are even more revealing of the general sense of disarray, as financial managers and speculators alike scurry around in search of safe havens.

There is a tendency in public debate to attribute the falling dollar to bilateral trade imbalances and the U.S. trade deficit, but I believe that is a gross oversimplification.

What is happening, in my judgment, is that there has been a general collapse of confidence in the ability of the U.S. or other governments to manage the forces at work. The tendency to make policy by reacting to crises, one by one, without any overall strategy or policy design, leaves the financial and commercial world with the feeling that the great ships of state of the West are maneuvering around in narrow straits in a fog, without attention to each other's behavior.

Europeans are calling for financial intervention to stabilize the dollar and other currencies. But the experts have found no way to do this effectively. That is because the sheer magnitude of financial resources needed to firm up markets is beyond the means of individual nations -- even the

U.S. -- and because a partial effort might well aggravate the crisis of confidence.

To stabilize the markets you have to quell the fears and stabilize the expectations of the market forces. You have to convert the rush into greater liquidity and mobility to a return to long-term financial and investment commitments. The movable has to be persuaded to sit still, in productive uses. The liquid surplus of OPEC has to be converted even faster into fixed investments in the OECD and in the developing nations. The private savings and cash positions of corporations have to be converted to investments in new areas of production, for the long-term.

To accomplish this, and turn the U.S. and other economies away from another economic downturn very soon, there must be developed a common sense of purpose that can be explained to the public and the markets. The present ad hoc reactions of national governments, with resort to protectionism at the borders and increasing official intervention to shore up weak sectors domestically, have to be put under control.

The present policy of pursuing the politics of blame -- "It's not our fault, it's the other nation's inadequate efforts" -- does not inspire market confidence. The so-called "locomotive theory" may have meaning to some economic theorists, but to the economic and financial world it symbolizes deep divisions in the West, and therefore, causes more fear in the markets, not less.

To get out of this mess takes a great deal of coordination and development of common analyses and common objectives. This is true at home, and it is true internationally.

We have a potential economic summit this summer. If it brings forth another set of platitudes, masking deep divisions on what to do, then we can expect the world markets to become even more fearful and erratic.

At home, the failure to link economic issues together, and decide them in a coherent and consistent framework, is being widely criticized, within the bureaucracy as well as in the private sector of our economy. It is therefore not surprising that the Congress should become concerned, and I commend Senators Roth and Ribicoff for submitting this bill, for debate, on the question of how to improve the structure of management of commercial and investment policy.

The Congressional Role

In 1962, when the Congress was asked by John F. Kennedy to consider the Trade Expansion Act of 1962, the Congress found itself compelled to deal with the organizational issues of trade negotiations and trade policy management.

The Congress had become dissatisfied with the long-standing role of the State Department in leading U.S. trade negotiating teams. This was substantially attributable to widespread criticisms by agricultural, industrial, and labor groups in the private sector. Against the objections of President Kennedy, the Congress forced the establishment of the Office of the Special Representative for Trade Negotiations in the Executive Office of the President, to lead the negotiations authorized under the Trade Expansion Act.

It was the Senate, in late 1974, that took the lead in further strengthening the role and independence of that Office, and the House of Representatives concurred in the appropriate amendments to the Trade Act of 1974 proposed by the Senate. The head of the Office was given Cabinet rank in the law. The President, then Mr. Ford, and the Executive Branch once again objected vigorously, but the Congress prevailed.

Congress had been subjected to intense constituency pressures, and had been frequently called into disputes among interest groups concerned with the nation's trade policies. Congress therefore insisted this area was special, requiring unusual efforts of coordination of domestic and international interests of the U.S. The result, the creation of this Office, is clearly an anomaly. What we now have is a line agency responsible for trade negotiations, including management of a trade negotiating team in Geneva, and that agency is located in the President's own office, separate from all the line agencies of government. I am sure its existence must have been puzzling to each new President, on examination of the structure of his own Office.

Is it justifiable? Because economic policies affect specific interests and institutions in our economy, members of Congress may be expected to be sensitive to the benefits and costs of policies to their constituent interests. The role of Congress in filtering and boiling down the politics and economics is necessary to effective functioning of the Executive. The mood, opinions, and determinations of the Congress provide a kind of national interest perspective which the Executive does not by itself accomplish very well.

But the role of Congress in international commercial policy is much more basic than that. It is a Constitutional issue.

Contrary to popular opinion and the efforts of Presidents and Secretaries of State, the Constitution does not really determine who has ultimate power to make and enforce foreign policy, especially foreign economic policy. Congress, not the Executive, is given the power to regulate commerce with other nations. And "commerce" has been defined by the courts as much broader than just trade. Congress has power to define offenses against the "law of nations" and to declare war. The President's powers under the Constitution are ambiguous. In any event, Congress has to provide implementing authority for most foreign policy matters that have any economic content. The Congress also is explicitly responsible for raising necessary revenues and for authorizing expenditures for any purpose, whether for war, defense, aid, or just

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diplomatic activity. Taken together with the power "to borrow money" and "to coin money, regulate the value thereof, and of foreign coin," the Commerce Power supports the U.S. role in international finance and banking. The Constitutional expert Louis Henkin says of the Commerce Power alone that "The Commerce Power...might be sufficient to support virtually any legislation that relates to foreign intercourse, i.e., to foreign relations."

The control of Congress over the Executive is exercised through legislation and the refusal to provide appropriate approval of treaties or legislation to implement agreements reached by the Executive. After a deal has been struck with other nations, Congress may still refuse to go along. When the Congress refuses to provide implementing authority, it is not only a source of deep embarrassment to the Executive -- it is also disrputive to the governments of many other nations. It is an extreme step. But it is a step which historically has been taken not infrequently, and seems to other nations to be a serious impediment to economic negotiations with the U.S.

When such breakdowns occur, Executive officials, and sometimes the President, blame Congress, in a posture of helplessness before foreign officials. In most cases, in my experience, such breakdowns are the fault of headstrong, egocentric officials in the Executive working on their own, with inadequate attention to domestic economics and politics. Sometimes breakdowns result from partisan politics, in an area where partisanship is not only inappropriate, but can rarely succeed. In most cases of breakdown, there was simply inadequate consultation with the Congress before agreements were reached.

This fact, of the power of Congress to withhold implementation, or to add new conditions on Executive administration of an agreement, creates problems for the U.S. in negotiating with other nations, especially on commercial matters. The major trading partners of the U.S., for example, in the early 1970's refused to enter into worldwide trade negotiations until the U.S. Executive Branch acquired from Congress specific authorities to negotiate trade policies and to cut tariffs. While it would logically have been better for the Executive first to define and negotiate specific solutions to the wide array of trade problems in the world, and then to come back to Congress and propose a specific package to Congress for approval, the governments of other nations simply would not go along with this. Given their perception of unhappy experiences in the past, when the U.S. failed to deliver on its Executive Branch deals, the politicians of other nations wished to spare themselves potential embarrassment and even political damage.

However, it is not always possible to legislate in advance an appropriately defined delegation of power, when the negotiations are only beginning. Moreover, circumstances change. What was once appropriate may be less so as time goes on. On the other hand, Congress cannot negotiate for the Executive.

A mixed solution is therefore necessary, combining formal consultations, Congressional involvement at least as observers, use of Congressional hearings, and legislative directives to the Executive. The particular mix may be different in each case, but all of these elements need to be involved in some degree.

The problem of delegating sufficient power, without delegating excessive power, to the Executive, is not easy to solve. In the Trade Act of 1974, this was dealt with by several techniques. One method was to elaborate in various sections of the law the "negotiating objectives" as Congress saw them, and to elaborate certain techniques which the Congress wished to have explored (e.g., the law stipulates that a sectory-by-sector approach be taken, where feasible, and that reports be made on the results of this negotiating approach). A second was to encourage the Executive to negotiate on nontariff trade measures, but to require that any changes in U.S. practice which necessitated changes in law would have to be brought back for legislative consideration. Another means of keeping Congress and the Executive in some kind of continuing relationship was the establishment under the law of a Congressional oversight group, the members of which could be delegates to the international negotiations. The staffs of the Finance and Ways and Means Committees were designated by law to support this activity, and the Executive gave informal assurances that the staffs would have full, unimpeded access to documents and overseas official cables, and would be able to attend international meetings (provision for Congressional staff to be in the negotiating room was considered unprecedented by the State Department, and resisted for a time, during the consideration of the Trade Reform bill which later became the Trade Act of 1974). Yet another device was to provide for Congressional override, or veto, of certain actions taken, or not taken, by the President, in some cases by concurrent resolution, and in other cases by veto of either house.

During the Congressional deliberations of this Act, other governments indicated, at high levels, that negotiation on an ad referendum basis would be unacceptable, without something more to assure reasonable chance of Congressional approval of any final agreements. The Executive informed Congress that other governments wanted, specifically, that matters referred to Congress would be acted upon within a specified, limited period, and that decisions by Congress would be based on a simple yes or no vote (no splitting up of package deals, and no new conditions imposed). The House offered a negative veto procedure, similar to those provided for under the various reorganization acts (if no negative action within a specified period, the proposal became law). The Senate did not believe that legislation affecting specific matters of commerce and altering previous laws should be enacted in this manner. Instead, the Senate proposed that the new Trade Act specify the Congressional timetable and rules of consideration for potential trade packages, and that the Congress bind itself to make an up or down vote within the specified period. The Senate prevailed in the final version of the Act.

This elaborate piece of legislation was one recent approach to coping with the Executive-Congressional division of functions. It has so far, I believe, proven successful.

Is Something More Needed?

The solution found in the creation of the Office of the Special Representative for Trade Negotiations has worked well, so far as it goes. But now we find more and more issues becoming intertwined with trade policy.

Even more crucial, trade policy is having a growing political and economic impact on the domestic economy, on industry, and on farming, and on jobs. And financial markets are affecting trade, and trade is affecting financial flows. World debt is being cumulated to purchase goods and services as well as to finance development, so that trade, aid, and debt, or commercial lending, are becoming inseparable questions.

Our institutional system of decision-making, or even of policy planning, does not even recognize this, much less cope with it. When there are disputes, as is inevitable when particular interests are affected, appeals are made -- by those interests, by the agencies, by the Congress -- and the appeals move upwards, gradually converging on the President. In turn, recently, more and more of the disputes are also going to the courts. And the Congress is under intensified pressure to legislate solutions.

It is an impossible situation.

From the President's point of view, he is overloaded with appeals, and confronted by daily crises and complaints from leaders of other nations.

One could fairly say that the Departments have historically failed to protect the President from inordinate pressures on him personally, by failing to develop the necessary political consensus or balance <u>before</u> decisions are made.

The kinds of issues that reach the President are specific and narrowly defined. Almost anything controversial seems to gravitate towards him. From the President's point of view, he needs a clear policy design, capable of articulation in his speeches as well as in statements of the Cabinet, and usable as guidelines for daily departmental or agency decision-making.

But the President needs even more, for his own protection. It is imperative that: (1) someone act as arbitrator between contending forces in the Executive; (2) someone enforces Presidential decisions and policy guidelines; and (3) someone handle appeals and manage relations with Congress and private and public bodies outside the federal government.

In my opinion, these specific functions must be carried on by a handful of people somewhere in the President's own staff.

Conversely, to make this role, and that of the President, workable, the departmental structure must somehow be strengthened, so that the departments are charged with, and carry out, a broader role in developing both domestic and international consensus than has been the case until now.

Something is therefore needed. The question is what:

(1) Should we have a Department of Economic Affairs, linking international and domestic economic issues?

(2) Should we link all international economic issues and all national security affairs?

(3) Should we bring together all international economic issues (trade, aid, investment, finance, export controls, energy, oceans policy, etc.) in a separate Department of International Economic Affairs?

(4) Should we consolidate only trade issues in a Department of Trade?

(5) Should we link, as S. 1990 does, trade and investment policy in a Department of International Trade and Investment?

(6) Should we have a new Cabinet Committee or Presidential Committee to pull it all together?

As for the last alternative, that has been the means of dealing with the problems in the past. There have been formal committees and informal steering groups. In the end, the job has never been accomplished well in this way because a small committee cannot staff itself out to cover the whole territory, and sift the issues and their linkages before the White House gets dragged in.

Nonetheless, my own view in the past was that a small Presidential staff, through its power to send problems back, and to enforce Presidential decisions, could create a strong motivation on the part of the Departments to do a better job among themselves.

The experience in the 1970's of rapidly growing interdependence, external shocks, internal disputes, and general overloading at the top makes me doubtful whether my earlier conclusion is any longer valid. I therefore now think that one strong agency is needed to force compression and cohesion. It is a matter of staffing out the accelerating complexity, and of forcing other agencies to think through the international economic consequences of their moves.

For example, to have the Department of Energy dealing with other governments and shaping a policy separate from the rest of our international economic policy is not a sound way of dealing with the shocks of energy adjustment, and the political and economic pressures on markets, and on other .

national economies. To have financial officials dictating export finance policy, or foreign debt policy, without reference to U.S. export and import policy, is foolish. To have aviation agreements here, and fisheries questions there, and agricultural deals in another place; and commercial trade policy in yet another place -- does this really maximize our effectiveness?

In fact, my own negotiating experience is that if the man across the table senses divisions behind the U.S. negotiator, he will exploit them. He will try to bring one U.S. agency into conflict with another, if he can. If he senses a way to peel away one issue from another, he will. And if senses the U.S. negotiator cannot, or may not be able to, deliver on the deal, he will fold up his cards and go home.

It seems to me the biggest part of the economic crisis we face is in creating a sense of common concepts, common purpose, and common effort internationally. I would therefore now tend to vote for a new agency to deal with all external commercial and investment matters, but I would include agricultural trade. In saying this, I mean all commercial questions, in the sense of the Constitution's use of the world "commerce"; that is, including energy problems in all their international guises, oceans and fishing questions, aviation, and everything else commercial in whole or in part.

And I must wonder whether we should not also include policy on external debt, development assistance, export financing, and other such trade-related or investment-related financial questions.

The Executive Branch will naturally resist such a change, because of disturbance to present power structures. The White House would probably resist yet another agency.

But what is the real objective? It is to present one design, and one mode of negotiating, to the rest of the world. The real purposes must be to (1) strengthen the U.S. in bargaining, and (2) give confidence to world markets that the house is now being put into order -- in all its major aspects.

It is a way of recognizing the reality of ecopolitics -- and of recognizing the global crisis of confidence, with a view to calming the fears and channelling the energies of our vast economies in a more productive direction than chasing around from liquid asset to another, and from one currency to another.

If the rules of the game settle down, fundamental economics will take the place of apprehension and fear.

If we want the expectations of the market to settle down, and our surpluses to go back to work in the form of long-term, productive commitments, we must somehow stop the arguments with other nations, and start convincing the market forces that governments have a long-term vision and a sense of common destiny.

This is Constitutionally the business of Congress, and you are fundamentally correct in raising the problem, in the form of this bill before the Committee.

Senator ROTH. Mr. Cohen.

We are pleased to welcome as our next witness Dr. Stephen D. Cohen. Dr. Cohen is author of a book entitled "The Making of United States International Economic Policy" and formerly was on the staff of the Murphy Commission on the Organization of the Government for the Conduct of Foreign Policy, working on international economic matters. He is an associate professor at the School of International Service, the American University.

In addition to teaching and writing, he consults for business and Government.

It is, indeed, a pleasure to welcome you here today, Dr. Cohen.

TESTIMONY OF DR. STEPHEN D. COHEN, ASSOCIATE PROFESSOR, SCHOOL OF INTERNATIONAL SERVICE, THE AMERICAN UNIVERSITY, WASHINGTON, D.C.

Dr. COHEN. Thank you, Mr. Chairman.

I appreciate your invitation to testify on behalf of S. 1990. With your permission, I will summarize my testimony and ask that it be included in full for the record.

Senator ROTH. Thank you.

Dr. COHEN. I strongly favor the bill's contents. I have no major reservations against it. I believe existing organizational shortcomings and emerging changes in the international trading system represent compelling arguments on behalf of this organizational innovation.

Since this is the day of full disclosure, let me suggest that I am not totally objective in terms of the merits of the bill because one of my recommendations in my book had something to do with the bills being introduced and considered.

Other than that, I have a certain amount of objectivity in that, unlike the previous two witnesses, I have not held a senior position, nor do I hold now a senior position, in the bureaucracy. I have absolutely no vested interest in any bureaucratic setup nor in protecting turf. I have no preconceived notions that a certain method of organization is the best way.

I have begun my testimony on a bit of an academic note to suggest that the whole question of organization in foreign economic policy is not just a theoretical consideration. It is not something that belongs to some abstract consideration in terms of public administration.

There is a certain peculiarity of foreign economic policy that makes organization particularly important; mainly, foreign economic policy is not an independent phenomenon, it is a combination of two larger policy considerations; namely, economic policy and foreign policy.

I view foreign economic policymaking more than anything else as a reconciliation process. I have heard some references to this already today. The question often boils down to which legitimate interest gets priority.

There are a number of legitimate interests that are involved in virtually every important international economic policy issue. A major consideration in terms of the link between organization and foreign economic policy is the nature of national security policy and economic policy. They just happen to be the two most important priorities for virtually every industrialized government in the world today.

Consequently, foreign economic policy is a unique bridge in between two very important policy considerations, and not coincidentally between two very important bureaucracies, the national security bureaucracy and the economic policy bureaucracy.

Certainly when talking about foreign trade policy in particular, we have this weighting process between the external factors and the internal factors.

I believe the decisionmaking process should, indeed, be influenced by a number of points of view, and the worst possible thing that could happen is to have a foreign economic policy bureaucracy co-opted by the economic bureaucracy or the national security bureaucracy.

As I say in my prepared statement, there is empirical evidence of what happens when one bureaucracy or element of bureaucracy dominates. There is a tilt one way or the other. Depending on your point of view, this may be good, bad, or indifferent.

But I personally would prefer a balanced point of view. As I also suggest, in determining the national interest in this area of foreign economic policy in general, and trade policy in particular, this is a very complex, subjective process.

The best thing is to listen to a number of points of view within a constructive, well-managed debate, and have a consensus emerge from these different points of view.

It is a healthy thing if this exchange of viewpoints is kept within reasonable bounds.

As I said, the key is management, and I think lines of authority and lines of communication must be kept clear.

Sound decisions have to be made within a reasonable period of time and need to be respected by all parties concerned.

Now, the point that I would emphasize, even though I think it is clear in the bill, is that we are not talking about a Department of International Economic Policy. I personally would be against that.

Presumably, this Department would include international energy issues, monetary issues, development issues, and so forth.

I would prefer to keep a certain amount of specialization in terms of foreign economic policy organization.

A final point on this general concept of organization is an emphasis on coordination. To me, coordination is the single most important constant in good foreign economic policymaking. Again, it is the nature of the animal called foreign economic policy. Without good coordination, there will be a minimal chance for compatibility, coherence, and cohesiveness on what I think are the three important levels involved here.

The first level is within the various sectors of international economic relations.

Mr. Malmgren has already referred to the link between the monetary system, for example, and the trade system. Second, if you are doing one thing in terms of development policy and quite another thing in terms of trade policy, you tend to cancel each of those efforts out.

So there needs to be coordination within foreign economic policy per se.

Second, foreign economic policies must complement basic domestic economic objectives, such as full employment. And since foreign economic policy affects international objectives, trying to create a liberal, stable world economy, and perhaps efforts to cement alliances and win friends and influence people among neutrals or even unfriendly countries, coordination needs to take place between the national security and foreign economic policy spheres.

The department that is proposed in S. 1990 would simply be a building block in what I would think, would hope, would be a larger, more effective coordination system. The department would not be a master coordinator of foreign economic policy. It would just fit neatly into what could be a better coordination system in foreign economic policy.

In terms of a particular rationale, I think by consolidating what are disjointed and duplicative responsibilities in the international trade and investment sectors, DITI, to coin a new acronym today, would represent a major step, not a guarantee, of more effective, focused, responsive, and integrated American international trade and investment policy.

If you look at the numbers, our annual international trade and investment flows both ways are now about one-third of $1 trillion dollars. I believe that existing government organization is more befitting a cottage industry than something now as large as international trade and investment. It is illogical and overlapping. I think, as Dr. Malmgren mentioned, it is very confusing. As I suggest in my statement, it is confusing to all but the very shrewdest bureaucrats and lobbyists, who are paid, in effect, full time to try to understand this complicated phenomenon.

Contemporary international trade and investment policy organization represents historical and personality factors more than organizational precision or commonsense.

I won't go into the beginnings of the STR Office again. You already have gotten a very good view of the forces which started that.

Now, in foreign trade, there are a number of very active, sometimes noisy, and sometimes disagreeing fiefdoms within the process.

International investment policymaking is somewhat more quiet, usually all but undetectable. I personally am not quite sure how the international investment or international business decisionmaking process works, but the reason that I think it is a good idea to have trade and investment linked into one department is that there are a number of conceptual links which suggest the two need to go hand in hand.

They are the two principal market-oriented phenomena with a common business objective of increasing sales to foreign consumers. That applies both in terms of our selling to them and U.S. foreign direct investment overseas as well as foreigners selling to American consumers through higher imports or through their foreign direct investments in this country.

And more and more of the analysis of U.S. trade patterns suggests that a very significant proportion of U.S. exports of manufactured goods consists of intracorporate transfers, as opposed to arm's length sales between American companies and a foreigner having no affiliation whatever to the company.

We also are seeing a trend which I think will continue, namely, that more and more foreign companies will be interested in the American market for a number of reasons. Import patterns, I think, more and more will reflect this process of foreign direct investment in this country.

Well, in looking at this question of why the United States does not already have a single trade ministry, I have pondered that question and have not really come up with a definitive answer.

In the other countries I have studied, there is always a central focus for trade policy. So, I suggest there are three possible explanations.

The first is that the United States does something, or knows something, that nobody else does. If so, it is still a secret to me.

I think it suggests that other countries realize that a single designated spokesman for trade policy makes sense.

Now, the second possibility is that the U.S. situation is completely extraordinary, and a single trade ministry would be wholly inconsistent with reality.

On the one hand, this is true, if you are talking about a more omnipotent department such as MITI in Japan.

As I understand S. 1990, the objectives of DITI would not be to create a carbon copy of MITI.

Once again, we can look at the tenor of Government-business relations and see that there have not been the closest relations in relative terms. One reason we don't have a strong Commerce Department is that the U.S. industrial sector has never demanded it. To some extent it is a historical thing that, since no one demanded strong commercial or trade ministry, we simply don't have one.

It doesn't mean we couldn't use one and couldn't make it work.

A third explanation is essentially what I come down to: that is, that trade and investment policy organization is piecemeal. It has been influenced heavily by historical circumstances and the chance presence of strong personalities in the executive branch and Congress. Since 1962, when the Trade Expansion Act was passed, no one has really taken a hard, critical look at U.S. trade policy organization.

As I said, essentially the status quo has been taken for granted for well over 15 years, and a challenge to the basic assumptions of existing organizations is long overdue.

The discussion that begins today serves a very necessary purpose. Whatever the fate of the bill, Mr. Chairman, you and Senator Ribicoff and other cosponsors have performed a valuable public service. This bill is going to generate a lot of useful analysis and debate about very important issues.

I think the procedural comfort of letting sleeping organizational dogs lie is becoming prohibitively expensive in both real and potential terms.

The critical analysis of trade organization which this committee has undertaken coincides with the emergence of fundamental shifts in the international trading system.

My point is we have to go beyond simple organizational mechanics and look at the basic changes in the international trade situation.

Foreign trade officials in all countries must cope simultaneously with a change of pace in basic trade problems and an acceleration in the pace of change.

In the first 25 years after the GATT was created in 1948, adherence to liberal trade and pursuit of reduced tariff barriers were virtually unquestioned. Because of a number of economic forces all converging at once, today there is a major reassessment of the almost unquestioned belief that it is in everybody's economic and political interest to pursue trade liberalization.

What we have today is a convergence of three trends. One, the cooling-off period, as I call it, for real economic growth in the industrialized countries, mainly Western Europe, and potentially in Japan as well. No one knows whether this is a cyclical phenomenon or beginning of a secular phenomenon. Perhaps the postwar recovery has hit a plateau, and we are in for a long lull in terms of continued rapid economic growth. The fifties and sixties produced a growth environment in which the liberal trade ethic flourished.

A second problem is the global balance-of-payments disequilibrium caused principally by the structural current account surpluses of a handful of oil-exporting countries. Since we have a closed-ended system, somebody's surplus has to be somebody's deficit. The prinicpal way the deficits have been financed is by increased borrowing.

This is why the numbers in terms of increasing external debt have proved alarming to a number of people.

A third point which I personally would emphasize in terms of change in the trade situation is that a number of advanced less-developed countries have reached an export takeoff point. They are now very competitive and getting more competitive in the exports of manufactured goods.

At the time of the Kennedy round, there were essentially two trade forces that mattered in the whole system, the United States and the European Community. To this equation, Japan has been added. The OPEC countries have been added, and more and more the advanced LDC's are being added. Their growth rates are impressive and their ability to upgrade their export product lines is equally impressive.

Just one statistical footnote. The exports of South Korea doubled in nominal terms between 1975 and 1977, to give you some indication of how well some of the LDC's are doing tradewise.

So I disagree with those who say that once overall economic growth is back on the track that trade issues again will become relatively simple. I think the whole trade sector will continue to be extremely complex.

Already we have seen symptoms of this in terms of orderly marketing agreements on our part and in terms of informal agreements on the part of the Europeans. In both cases, such agreements are generally aimed toward the Japanese because of their export competitiveness.

Some of these advanced LDC's may need to be subject to the same pressures and the Japanese may soon be resorting to asking them for "voluntary" export restraints.

More and more, we are seeing arguments about the need to regularize trade. The French are calling for organized free trade to, in effect, divide import market shares on a standardized basis.

On the export side, I think the allegedly widespread dumping of steel may be symptomatic of the dangers of a long period of slow growth. Namely, that with large industrial plants functioning, governments especially in Western Europe and Japan have a vested interest in making sure that these companies stay in business and that they are producing at acceptable levels of capacity.

If there is no domestic market, you sell overseas for whatever price you can get. Steel may or may not be a harbinger of things to come, as slow growth leads to more and more industrial overcapacity in other countries.

Issues are becoming more complex, and old standards such as the MFN concept, are eroding. New trading powers and patterns are emerging.

And another related item here, governments are becoming more and more involved in the performance of their domestic economies. Everything is relative, and this is happening much more overseas than in the United States. Increasingly, the dividing line between foreign corporate exporters and the official sector continues to blur.

I think this is a factor that U.S. traders are more and more confronting.

These new issues and the accelerated pace of change as a result of better transportation and communications, and better production techniques, all call for a quicker turnaround time between the emergence of trade problems and policy responses.

For example, the Trade Act of 1974 imposes a number of timetables in terms of the administration's reactions to ITC decisions. I am perfectly willing to accept the argument that existing procedures are at least adequate for recent and present needs. However, if you accept my premise that things are going to get a lot more complicated, then I think these procedures will be very hard pressed to cope with the new challenges ahead.

Finally, I would also disagree with some of the monetarists who believe that our trade problem essentially will take care of itself because of the advent of floating exchange rates. Once again, I think this is an oversimplification. I think the situation is much more complicated than sitting around and waiting for the dollar to depreciate and for this change to lead to increased exports and decreased exports.

I think very little of what has happened so far will do anything in the short run to improve the U.S. balance of trade, certainly not in 1978.

I believe that a better organization, such as the one in S. 1990, might at least illuminate this country's trade shortcomings and more effectively articulate corrective issues. DITI must not be programed for mercantilist trade policies by pushing exports for their own sake. But it would be the appropriate vehicle to emulate the positive aspects of foreign official export expansion efforts.

I would like to say in way of digression, this question of U.S. exports and need for additional exports has, I think, so far been very poorly argued. We seem to have two extremes, academics who look down their noses on exports and don't believe that increased exports are very much needed, and the other extreme, the mercantiles who would have the Government do much more in the way of subsidies and promotion.

Perhaps this Department, as well as the hearings in the Senate Banking Committee on what is an appropriate export policy, would be better served than the two extremes, at least as I see them.

In my opinion, the chief rationale for centralizing trade policy in a single ministry is not the promise of quick, dramatic improvement in the quality of trade policy nor in the arithmetic of our very large trade deficit.

The chief rationale is that the odds are improved that a better trade policy performance will be forthcoming. At the very least, I think we can anticipate marginal benefits at very little cost in terms of consolidation into a Department of International Trade and Investment.

Creation of a DITI as outlined in this bill would not require the expense of the bureaucratic enlargement commonly associated with the birth of a new department.

All, or essentially all, of the required parts have already been budgeted.

The creation of DITI would be cheaper and simpler than the Department of Energy's creation. There you had to create a new salary for the Secretary, among other things. The STR, for example, is already a Cabinet-level position; in theory you would not have to create one new job to create DITI. The deputy STR's are already the equivalent of Cabinet under secretaries.

Now, what you have here is not a cure-all, but if I can pick up something Mr. Malmgren mentioned on page 15, essentially what DITI can be is an artibrator and enforcer and an outside link between the three major components of international commercial policy, imports, exports, and foreign investment.

It may be oversimplified, but I think full-time, high-level concentrated attention improves the chances for effective, consistent policy. I think this would be the bureaucratic essence of DITI, that it, a balanced system of international commercial policymaking.

Another major argument on behalf of the Department is that it will improve the communications process. Communications must be good within the executive branch, between the executive branch and the private sector, between the executive branch and the legislative branch, and between the U.S. Government and foreign governments.

One of the advantages for having everyone know who has responsibilities is to improve the incredible communications problems as to whom is in charge, because so many people are involved and have their interests affected by U.S. trade policy.

Within the executive branch, the priorities should be the creation of a trade policy leader, not a dictator, but one officially known to have primary jurisdiction in international commercial affairs. Stature, not complete autonomy, would be the hallmark of an effective U.S. trade ministry.

None of what is contained in S. 1990 suggests to me an end to interagency deliberations. We would still have the process of interagency consultations, but a very much revised one.

No matter what organizational changes are made, it still would be necessary to have insights from specialized points of view in the policymaking process.

My prototype in terms of coordination headed by the Department of Trade and Investment would be the International Monetary Group. This is the chief coordinating overseer for international monetary policy in the U.S. Government.

In my study of coordination at the Murphy commission and in doing the book, it seemed clear that this was one of the more efficient, if not the most efficient, coordinating groups within the executive branch.

One of the advantages clearly is that monetary relations are so complicated that not a lot of people are actively interested in participating in policy processes. But another key to performance is that the Treasury Department is clearly known and respected as the dominant voice in international monetary affairs.

Other departments' monetary specialists attend International Monetary Group meetings and their opinions are put forth and discussed. However, there is no question but that when push comes to shove, the Treasury Department retains primary responsibility.

One of the most vexing problems, should DITI be created, is the question of how much analytical capability should remain in the departments.

The bill does provide that the basic policymaking functions and operational functions be transferred. But I would assume that all of the affected departments, State, Commerce, Treasury, and so forth, would at least have an advisory group, four, five, six, eight professionals who would monitor trade and investment policy and who would participate in the interagency process dominated by DITI.

The job of those departments essentially would be to put forth their own views of what is in the national interest, to put forth their own constitutent attitudes, foreign policy, industry, balance of payments, whatever.

Again, all these are legitimate and must be and should be included in the policy debate.

So you would continue to have some type of coordinating mechanism.

Another argument suggesting that DITI would be in the interests of the executive branch stems from one of the big changes in U.S. trade policy, in which rightly, and perhaps in some cases wrongly, a number of other governmental entities are getting involved. I have termed this process the "adjudicationization" of U.S. trade policy.

The executive branch has to be responsive and to be able to give quick, precise responses not only to the Congress, but potentially now to the judicial branch as well.

If we throw in the private sector and the foreign government side of things, the executive branch has to be talking, hopefully, with one voice to quite a number of constituencies.

I thought the effects of government overlap were aptly summed up by a European community official here in Washington when there was a prospect of both Treasury and ITC investigations of stell imports violating antidumping law. He was quoted as saying, "There is absolutely no need for duplication of harassment."

Another specific area where I think this Department would improve policy and would improve specific areas of governmental performance would be in the export promotion area.

I must admit it is not at all clear to me what the optimal level of U.S. Government policy should be here. On the one hand, you could say it should be hands off; on the other hand, you could suggest we emulate the Japanese in the 1950's and early 1960's.

In any event, discussing reorganization and the actual reorganization itself would provide fresh opportunities to completely review this issue. The only caveat is you review what has to be done before DITI itself establishes a vested interest in promoting a given budget and a given set of personnel in terms of these export promotion activities deemed appropriate for the U.S. Government.

Creation of a trade ministry would permit clear announcement of who is in charge of exactly what program.

For those interested in the foibles of existing trade promotion efforts, I call your attention to a House Government Operations Committee publication entitled "Effectiveness of the Export Promotion Policies and Programs of the Departments of Commerce and State." In a word, they didn't think there was much effectiveness.

The report concluded "export promotion efforts will continue to be inefficient and ineffective" as long as the objectives are clouded and interdepartmental frictions exist.

The whole question of overseas commercial representation, I think, is becoming critical as to whether U.S. companies can increase their sales abroad. One of the most overstudied questions in all U.S. foreign policy organizations is who should be in charge, Commerce or State. After years and many studies, the question still is unresolved. The jurisdictional problem has never been settled.

As the oil exporting countries proceed with massive development programs, the stakes for individual bids on a single project can literally run into the billions of dollars. One governmental official told me privately that he thought it was lack of U.S. embassy support that was a major factor in the U.S. companies' losing out on a major contract bid for communications equipment in Saudi Arabia. They unexpectedly lost out to a European consortium.

I would like to pick up at this point with one thing Chairman Minchew mentioned in terms of research and planning.

Much of what we do is really ad hoc. I think creation of this department could facilitate more long-term planning and a better research effort.

Well, in way of conclusion, let me quote Oliver Wendell Holmes.

He is reported to have declared that the test of truth is its ability to defend itself in the marketplace. I believe there are compelling reasons and justifications for the organizational changes proposed in this bill. Unfortunately, it is impossible to guarantee or quantify the benefits that would ensue in the form of a more efficient end product, that is, policy. Without good people, an organization cannot live up to its full potential.

Since there are these question marks here, I think it is incumbent to use the old American knowhow in marketing to get additional support for this bill.

I personally believe the biggest obstacle to it is inertia. Its supporters must exercise considerable tact, patience, and determination. A long, laborious process is now required, one that would allow interested individuals and institutions, including the executive branch, to compute as best they can the ramifications of creating a trade ministry in terms of their own values, needs, and self-interest.

I think Mr. Malmgren suggested the administration would not go along with this bill. My guess is the administration will say, "Come see us in 18 months when we finish our reorganization study."

And it could well be that, if and when that reorganization study is ever finished, they will come up with similar conclusions. Once again, I think the major problem on the executive side is simple inertia.

Well, all of this process of trying to filter the questions through self-interest lenses is proper and inevitable. Certainly further hearings by this committee will be invaluable for what I think is a much-needed effort to improve international policymaking procedures.

A number of adjustments may be needed in the specific provisions of S. 1990 to meet legitimate complaints. I would like to here and now, issue a certain number of rejoinders to sincere expressions of doubt, expressed to me with which I am not in agreement. The Department of International Trade and Investment will not monopolize U.S. international economic relations in general or trade policy in particular. It will merely facilitate and strengthen a pluralistic process.

Second, DITI can easily be prevented from becoming isolated by simple organizational adjustments, for example, requiring that a fixed percentage of its professional staff be seconded for temporary duty from other departments.

The system of checks and balances is too deeply engrained in the American system to allow realization of another fear, one already articulated to me. It is highly unlikely that DITI would ever be co-opted by adherents of a single trade philosophy. Several persons have privately expressed to me a preference for the existing fragmented, often inefficient system. They argue the latter represents a known given and is therefore preferable to the risk of having an efficient, fine-tuned apparatus fall under the control of the other side.

DITI must work within the context of a diverse executive branch and obviously an increasingly activist Congress. Ideological monopolies do not seem to present a clear and present danger to any U.S. trade policy organization.

The primary purpose of restructuring and consolidating the process of formulating and conducting international commercial policy is to rationalize, not radicalize this policy. The exigencies of rapid structural changes in the global economy continue to pressure already creaky institutional capabilities.

It is not in the interest of any American individual or group to have a second-rate trade policy organization in such a competitive and dynamic global economy. It is in everyone's interest to have a decision-making apparatus that is deemed to possess the optimal capacity for enhancing the economic, political, and commercial interests of this country through decisive, imaginative, and consistent international trade and investment policies.

Senator ROTH. Thank you, Dr. Cohen.

I would like to express my appreciation to you for not only your fine statement, but the leadership and innovative thinking that you are providing to Congress and the public at large in this area.

One of the arguments that you hear by some who oppose the creation of this kind of agency is that, with the existing departments having their own clientele, their own constituencies, that these would inevitably force the trade office's limbs to grow back so, in effect, in the old departments. So instead of consolidation and streamlining there would merely be another layer of bureaucracy. Do you regard this as a serious problem?

Dr. COHEN. Potentially, yes. Personally, I think the No. 1 argument against this bill is that this process might happen. If somebody could convince me that rejuvenation would occur, I would have serious reservations.

I think the worst thing to be done would be to create another layer of bureaucracy.

I think the bill should mandate specific provisions, perhaps through the OMB, that would set very specific guidelines to keep the necessary residual expertise down to a very small advisory capacity.

Again, we could go back to the example of this International Monetary Group where there are just enough international monetary specialists to follow and give legitimate points of view, but not enough to seriously challenge the Treasury Department's expertise. So I think this is something that very specifically needs to be put in the bill. I think it can be handled, but I would say that to simply brush it under the rug would be dangerous.

I think very clear guidelines—limiting through the budget, through the number of professional slots, whatever constraints could be dreamed up—are absolutely mandatory.

Senator ROTH. Dr. Cohen, in your testimony you alluded to coordination problems in the more general international economic policymaking area. You also say on page 3 that concentrating all U.S. international economic policy in one department would be, and I quote, "simplistic, detrimental to balanced policy."

Could you comment more specifically on the broader problems you see in coordinating our monetary policies or posture on the North-South dialog, how these coordinating problems might be addressed?

Dr. COHEN. My own feeling is that the executive branch coordination system is much too unorganized. It seems to change with each administration. I personally have suggested that there be a number of master coordinating groups, each chaired by an appropriate department. There would be a master coordinating group for trade and investment policy to be chaired by the department we are talking about here. In terms of monetary policy, the Treasury Department would chair this. In terms of the North-South debate, presumably the State Department would chair that.

Now, what seems to me lacking is clear guidelines as to what the coordination vehicles are.

One of the first arguments to come up in terms of any new trade or economic issue is, "Who is in charge?" and, "Where is the coordination going to be centered? Who is the chairman?"

So I would like to see a clearly enunciated program for coordinating groups broken down by Secretary so that it is clear who the chairman is and who the members are who participate. In such a manner all participants would clearly respect the dominance of the single department designated for leadership.

As I suggested in my testimony, within an overall coordinating apparatus, DITI would fit the role as being the leader of the master coordinating group on all trade and investment issues.

Senator ROTH. Do you see this being done by executive order?

Dr. COHEN. I think it would have to be, because in terms of the mechanics, they tend to be rather informal, and I would think that there is no reason to legislate this. This could be done simply by executive fiat or order.

Senator ROTH. One of the things in your testimony you mentioned was that things would get more complex and difficult in the future. Even if industrial growth returns, the competition from developing countries is going to increase, and so forth.

I wonder about the other side. As we look around the rim of Asia and elsewhere, we see potentially a number of countries taking off economically.

Doesn't this offer us both a challenge and problems but also opportunity?

What concerns me in the traveling that I have done is that this country seems to be behind others in what we are doing in anticipating some of these opportunities.

Dr. COHEN. I think that is absolutely right. As these countries grow and their exports expand, presumably their imports will expand. I have done some analysis of U.S. trade figures which suggests that our trade balance with the advanced Asian LDC's is deteriorating. Nevertheless, their imports are increasing quite rapidly. Now, obviously, part of that is oil.

A second part, and I am just inferring here, is that the Japanese are taking advantage of the growing markets in these developing countries.

Senator ROTH. That is exactly the country I had in mind. I think you have to respect them for it, whereas we seem to be doing very little.

Dr. COHEN. That is right.

Senator ROTH. One other area that no one has commented on particularly is that so much of our trade is by big business.

I have seen a number of articles expressing concern about this. Do you see this kind of a department being able to promote and better utilize and give better opportunity to small business, or do you think overseas trade is necessarily limited to bigger business?

Dr. COHEN. I think potentially the answer is "Yes." I am hesitant to give a flat yes or no answer. Frankly, there is really no reason I am aware of that the Commerce Department could not interest small businesses.

Presumably, if we got a larger and somewhat better organized department, there could be a better effort, but I would have to answer this question as "maybe."

I don't see any reason to see why not, but I certainly wouldn't guarantee that the changes we are talking about here would somehow engender more enthusiasm on the part of small business.

This whole question, incidentally, of the interests of U.S. exporters, or noninterest more precisely, is a major problem. Presumably the reorganization debate and subsequent changes could design some efforts to make American business more export oriented.

I am not sure why, so far, the efforts have failed. The problem may or may not be with business.

Senator ROTH. If the trade and investment functions were united in one department, do you think there would be more accountability to the Congress and the public for trade and investment policies?

On page 13 I thought you seemed a bit skeptical on Congress, or am I misinterpreting you?

Dr. COHEN. I think the Congress has clearly a major role here, and I would just emphasize this question of better communications, of knowing where responsibilities resided, would make the Congress role easier. In terms of the public, once again we would know where responsibilities lie.

So I would think that this would enhance Congress' ability to know what's going on and to know who is in charge. I think one of the problems now is the proliferation of responsibilities, but knowing that one person, one department, was the central figure, I think would simplify your job.

Senator ROTH. My 10 minutes are up.

I might say I am very pleased that Senator Heinz is here today. He was cosponsor of this legislation.

Senator Heinz.

Senator HEINZ. Thank you, Mr. Chairman. I just have one or two questions.

It would seem to me that the creation of the institution envisaged by this bill would force other agencies to improve the quality of their analytical work, improve their performance when considering trade matters, notwithstanding the fact that this agency might call upon those agencies for their personnel. Those agencies it seems to me would be called upon to do a better job in thinking through trade issues.

Would you agree or disagree with that?

Dr. COHEN. I would tend to agree. I think it is the old question of competition. Nothing generates more and stronger efforts than better competition, and I think these departments would clearly see a major new competitor. To the extent they wanted to offer their constituency's point of view on the foreign policy, industry, labor aspects, they would have to have a much better argument because, presumably, they would realize they are dealing with a very strong and capable department here.

Senator HEINZ. It seems that is not a good end in itself, but it is also the answer in part to some of the arguments that you indicate would be raised by the others regarding the fact that somehow this institution, this department, might fall into somebody's—always the wrong—hands.

Dr. COHEN. Right.

Senator HEINZ. The fact is that the grip of everybody would be strengthened on the increasingly complex questions internationally. So it seems to me.

Dr. COHEN. It seems that a lot of the debate on the serious issues is sidetracked because of some organizational questions as to who should be in charge. That always seems to be the first phase of this bureaucratic jealousy, who gets the leadership, State or Treasury or the STR.

If we can get more quickly to the substantive questions, this would improve in the policymaking process, I believe.

Senator HEINZ. One thing I didn't think you emphasized in your statement, and I think perhaps a passing reference was made to it earlier by Mr. Malmgren, is the growth of so-called mixed economies poses a particularly perplexing problem for us, whether it is in Japan with the emergence of MITI, or the Common Market's more or less coordinated, integrated import and export policies with the increasing difficulty we have in determining who has a so-called free-enterprise system or a mixed-enterprise system, with governments being partners to varying degrees, such as in Great Britain, the British Government being a very noticeable partner with British steel.

Dr. COHEN. Yes.

Senator HEINZ. Do you believe that the creation of a Department for International Trade and Investment helps meet that challenge, and, if so, how?

Dr. COHEN. Again I would think it would potentially meet that challenge. This whole question raises even an even larger dilemma of how much we want to emulate these countries in moving business and government closer together. But it would seem to me that a department like this, if it does its job properly, inevitably would win more respect and more support and more use from the business sector. The business sector does not use the U.S. Government very often when it comes to export.

When an importer is in trouble, he comes to the Government. An exporter, for good, bad, or indifferent reasons, does not rely very much on the U.S. Government.

It would certainly be my hope that this department would represent more effectiveness by channeling all the energies into one focus. The private sector would realize that, such as in the case of the Saudi Arabian communications contract, if there was one senior department in charge, that it would be very well to have them at least on their side, and they don't have to, in effect, turn over the negotiations as some foreign corporations already are doing overseas, to the Government.

I am told, for example, in some of these foreign negotiations the potential buyer is talking to the government's trade ministry, not to the country itself. Certainly I don't think we need to go that far. But toward a better partnership, I think that is the goal.

I would hope that this type of department, this organization, would elicit some support in the private sector and indeed justify itself in that support.

Senator HEINZ. In my judgment, it seems we, as a Nation that believes in the maximum amount of free market economics, have a tremendous significant vested interest in maintaining those essential characteristics of the American enterprise system.

Dr. COHEN. Yes.

Senator HEINZ. Those characteristics are inherently and implicitly threatened by the rise of mixed economies. That is not an argument for intervening in those mixed economies; it's an argument for the maximum amount of self-defense.

It seems to me that when we talk of self-defense, what we mean is doing our very best, and who knows whether we will be successful or not, but just doing our very best to minimize the impact of those mixed economies as they reach out into the world in a way that, in fact, is in nobody's real long-run interest. Having overcapacity in steel presumably really is not in anybody's best long-run interest. It may be an attractive thing to Trinidad and Tobago to say we have a domestic steel industry just like the United States and Japan and Great Britain, but, if that steel industry, in fact, is subsidized heavily, it is a misallocation of world resources. And that is in nobody's interest.

It seems to me, therefore, a role has to be played by somebody in our Government which I call self-defense. Maybe it's a Presidential role, maybe it's a role for this organization.

I take it you agree that it's a role that has to be played and on balance you agree it would be a good role for this department to play.

Dr. COHEN. Again with the proper emphasis; again I would not want this department to emulate MITI's domestic economic involvement especially in the immediate postwar period.

But I think there are certain areas where we can at least keep the odds from getting too far against us. To the extent that anyone agrees that more Government effort in this area is necessary, I don't think you can get it under the current organization. I think the President and his executive offices are too busy for general trade issues. On the other hand, the Commerce Department is perceived as too weak.

I don't think that at this point if the Commerce Department as presently constituted made these arguments, that they would be taken very seriously because people would realize they are not a powerful agency.

So to the extent that you believe these arguments and this partnership should be enhanced, I think again a strong, recognized, respected department fits the bill.

Senator HEINZ. I would like to say, speaking for myself, although perhaps there is considerable agreement on the committee, I would agree that the role of this department should not emulate MITI which, among other roles organizes, even cartelizes, Japanese domestic industry into a single-minded, often export-related, thrust.

That would not at all be my conception of how this agency ought to work. Indeed, I would see it in that regard as trying to do a more effective job of preaching the wisdom of a rational economic allocation of limited world resources.

Dr. COHEN. That is one role; the second role is to tell American exporters, if you have a problem you come to us and we will put a little more muscle on your behalf before the foreign government than is currently being done.

Senator HEINZ. Thank you, that is correct. Thank you, Dr. Cohen.

Dr. COHEN. Thank you.

Senator ROTH. One more comment. I agree with what Senator Heinz said in particular, and I would think this kind of organization might also be helpful on some of the problems business is facing with business practices abroad that we think are improper.

I believe maybe it was in your written statement, somebody's written statement today, that they commented——

Dr. COHEN. Yes, I tied that into overseas business practices, although they are not the same thing.

Senator ROTH. I have heard a lot of businessmen who have been concerned by bribery practices say they face some very difficult problems at the local level where you cannot get material unloaded unless you subsidize whoever is responsible for that. This seems to be a way of doing business.

I would hope that this kind of organization could bring about better practices in this area.

Dr. COHEN. Yes, sir.

Senator ROTH. Dr. Cohen, I apologize for keeping you here so late, but it has been very valuable to us, and again I would like to say to you and to the other two gentlemen that appeared, we look forward to your advice and counseling in the future on this matter.

Dr. COHEN. Thank you. I appreciate the chance, and I thank you for starting the process of reappraising the situation in terms of all the representative parties. I think it is a healthy thing at this stage of the game. Perhaps overdue, if anything.

Senator ROTH. Thank you, Dr. Cohen.

[The prepared statement of Dr. Cohen follows:]

PREPARED STATEMENT OF DR. STEPHEN D. COHEN, ASSOCIATE PROFESSOR, SCHOOL OF INTERNATIONAL SERVICE, THE AMERICAN UNIVERSITY, WASHINGTON, D.C.

Mr. Chairman, I appreciate your invitation to testify on the merits of S.1990, a bill that would create a new Department of International Trade and Investment (DITI). I strongly favor the bill's contents. Existing organizational shortcomings and emerging changes in the international trading system represent compelling arguments on behalf of this organizational innovation.

In order to give a full disclosure of my approach to this bill, I feel that I should also mention a feeling of personal interest in its enactment. Many of the ideas contained in this proposed legislation emanate from my 1977 study of the organization for the conduct of U.S. international economic policy.* My thinking since then has changed only to the extent of being more convinced than before of the soundness of creating such a department.

An Overview of Organization

Organizational issues of are special significance to U.S. foreign economic policy. The latter is not an independent phenomenon. Rather, it is an amalgam of other basic ingredients: political and economic factors as well as domestic and foreign priorities. Foreign economic policymaking is more a reconciliation process than anything else. It is a balancing act, trying to devise policy which complements both internal and external needs and objectives. The fact that physical security and financial security are the two highest priorities of most countries mandates foreign

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* The Making of United States International Economic Policy -- Principles, Problems and Proposals for Reform. (Praeger: 1977.)

economic policy both to a level of importance and a place of contention between powerful governmental forces.

Should control of the decision-making apparatus be dominated by either the foreign affairs bureaucracy or the domestic economic bureaucracy, a high probability exists that international economic policy will "tilt" in favor of one priority over the other. This is not venality; determination of the "national interest" in complex international economic issues is a difficult, subjective process. The absence of State Department input during the textile embroglio with Japan from 1969 through 1971 and during the immediate period following announcement of former President Nixon's New Economic Policy in August, 1971, are empirical examples of this phenomenon. In both cases, the interests and feelings of other governments, U.S. allies, were given minimal consideration in the pursuit of domestic goals. The policymaking process can and does affect policy substance.

Arguments about organization affecting international economic policymaking go beyond conceptual issues of public administration. Deep-down, most of these debates are smokescreens for issues of control and influence between bureaucracies having different missions, perspectives, and interpretations of national needs and interests. If managed properly, a vigorous exchange of different viewpoints is healthy. It assures that all appropriate interests are taken into account in the complex international economic decision-making equation. But the key is management. Lines of authority and communications must be clear. Sound decisions have to be made within a reasonable period of time and need to be respected by all parties.

An attempt to concentrate control of all U.S. international economic policy in one department would be simplistic. It could be detrimental to balanced policy. For the reasons just mentioned, a number of different perspectives need to be considered in any complex international economic issue. Furthermore, the agenda of international economic relations is growing too rapidly to allow concentration in any single department, present or future, without creating an unwieldy bureaucracy.

In my opinion, there needs to be organizational specialization according to the major functional sectors of foreign economic policy: trade and investment, finance and monetary policy, energy, development, etc.

The most pervasive policy dilemma is the difficulty -- and importance -- of providing good coordination. To assure compatability, coherence, and cohesiveness, foreign economic policies must be cordinated on three levels. First, between the various sectors of international economic relations; e.g. there is a link between the international trading system and the international monetary system, and both systems in turn relate to developmental questions. Secondly, foreign economic policies must complement basic domestic economic objectives, such as growth and price stability. Finally, they must complement international objectives, e.g. a liberal, market-oriented world economy and efforts to cement alliance politics.

S.1990 would provide an efficient building block in this overall coordination system. The proposed Department should not be confused with an all-encompassing department of international economic policy. Nor should it be viewed as a master coordinating unit. International commercial relations are merely the most visible and most pocketbook-oriented segment of a larger range of internation economic issues.

In sum, creation of the proposed DITI would not be a panacea for all of the structural shortcomings which I believe exist in the U.S. international economic policymaking apparatus. For example, a more effective senior-level coordination process is necessary. Although this is not the place to develop my thoughts on this area, suffice it to say that DITI would fit neatly into what I would consider an effectively reorganized, comprehensive means of coordinating U.S. international economic policy. Without this new department, any coordination process faces the problem of having to recognize multiple bureaucratic spokesmen in the various trade policy issue areas, depending upon the exact nature of the issue at hand.

Rationale for the Department

By consolidating the organizationally disjointed and duplicative responsibilities in the international trade and investment sectors, DITI would represent a major step, not a guarantee, of more effective, focussed, responsive, and integrated American policy. Annual international trade and investment flows (in both directions) already represent a third-of-a-trillion-dollar business in the United States. Existing government organization is, however, more befitting a cottage industry. Its illogical, overlapping nature is confusing to all but the shrewdest bureaucrats and lobbyists.

Contemporary international trade and international investment policy organization represents historical and personality factors more than organizational precision or common sense. The presumed center of trade policy, the Office of the Special Representative for Trade Negotiations (STR), embodies several organizational anomalies. It is one of the very few operational units within the Executive Office of the President. Its activities and influence ebb and flow according to whether multilateral trade negotiations are in progress and to the nature of the relationship between the President and the Representative himself. A number of key trade policy activities still reside in the Agriculture, Commerce, State, and Treasury Departments. STR's purported coordination role traditionally has been usurped by the various White House groups assigned to grapple with overall international economic policy coordination.

Whereas foreign trade organization consists of a noisy, active string of narrowly defined fiefdoms -- which may or may not work together harmoniously -- the international investment policymaking process is all but undetectable. The increasing complexity of the issues associated with inward and outward foreign direct investment and with the separate, but related issues of international business practices (e.g. bribery and boycotts) deserve a more sophisticated policymaking focus.

U.S. trade policy is linked closely with foreign investment policy. At the bottom, there is the conceptual link of their

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being the two principal market-oriented phenomena with the common business objective of increasing sales to foreign consumers. A technical link results from the fact that a very significant proportion of U.S. exports of manufactured goods presently consists of intracorporate transfers; that is, arms-length sales directly to foreign buyers are not involved. On the import side, the mounting tide of foreign direct investment in this country inevitably will alter the composition and level of U.S. imports, just as export patterns have been affected by U.S. corporate foreign direct investment. Demands by LDCs for increased transfers of technology, as well as the outlook for tighter host-country control over the production and trade patterns of multinational corporations, suggest additional longer-term effects of overseas investment in the U.S. export sector.

The United States is unique among industrialized countries in not having a single ministry or agency charged with the overall direction of trade policy. There are three explanations that immediately present themselves. The first is that this country knows something (or does something) that nobody else does. If so, it is a well-hidden secret. The advantages of a single designated spokesman for trade policy when dealing with foreign governments is obvious. Dismissing this answer, we come secondly to the possibility that the U.S. internal situation is so extraordinary that a trade ministry is wholly inconsistent with reality. While one can argue that the more powerful models of such a ministry (for example, the MITI in Japan), are inappropriate to the tenor of U.S. government-domestic business relations, the abstract notion of a trade ministry is not at odds with the U.S. experience.

This leaves a third explanation: U.S. international trade and investment policy organization has grown piecemeal, influenced by historical circumstances and the chance presence of strong personalities in the Executive Branch and Congress. Existing organization is accepted and tolerated because "that's the way we've always done it." Since passage of the Trade Expansion Act in 1962, no one has publicly taken a long, hard critical examination of U.S. trade policy organization which did not take the status quo for granted.

A challenging of basic assumptions and existing organization is long overdue. The discussion that begins today serves a very necessary purpose. Whatever the fate of this bill, Senators Ribicoff and Roth have performed an important public service; by introducing this bill, valuable analysis and debate of an important issue are ensured. The procedural comfort of letting sleeping organizational dogs lie is becoming prohibitively expensive in real and potential substantive terms.

This critical analysis of trade organization which this Committee has undertaken coincides with the emergence of fundamental shifts in the international trading system. Foreign trade officials in all countries must cope simultaneously with a change of pace in basic trade problems and an acceleration in the pace of change.

The thrust of international trade relations in the 25 year period following the entry into effect of the General Agreement on Tariffs and Trade (GATT) in 1948 was in the direction of liberalization and rapid expansion of trade flows. This momentum toward a system of freer international trade blossomed within the context of sustained, high levels of economic growth and generally low levels of unemployment in the industrialized economies.

Today, three broad international economic trends are converging at once to induce fundamental shifts in international trade conditions and needs. These include a "cooling-off" period of uncertain duration for real economic growth in the industrialized countries, especially in Western Europe and possibly Japan as well. Second, an intractable global balance of payments disequilibrium, caused principally by the structural current account surpluses of a handful of oil exporting countries, has produced mounting trade deficits and rising foreign debts for almost all oil-importing countries. Thirdly, a number of advanced less developed countries have reached the "take-off point" in terms of the international competitiveness of their exports of manufactured goods. Their exports' growth rate is impressive, and their ability to upgrade their exports, i.e. move into more sophisticated product lines, is taken for granted.

The collective effect of these trends is an apparent suspension in the practice of the liberal trade ethic. Liberal rhetoric still abounds. No government as yet has been so foolish as to think a generalized resort to protectionism somehow will work more effectively today than it did in the 1930's. Even though the global economy was less interdependent in this earlier period, the widespread adoption of import barriers penalized everyone's economic interests. On the other hand, for political reasons, the competitive bite of rapidly rising imports cannot be ignored altogether in economies suffering rising unemployment.

The search for a middle of the road course out of this dilemma has resulted in a series of quickly established ad hoc procedures to produce "restraint" on the part of aggressive exporters, thus far mainly the Japanese. The profusion of so-called orderly marketing agreements and the French embrace of a concept dubbed "organized free trade" to divide world market shares on a standardized basis symbolize a new era in import management policies. On the export side, the apparently widespread recourse to the dumping of steel in world markets may be the precursor of a vicious cycle of slow growth-overcapacity-governmental subsidy to protect basic industries and artificially maintain production levels.

A return to more sustained economic growth in the industrialized countries will alleviate some of the protectionist pressures. But it will not neutralize the growing competitive threat of the advanced LDC's, the Japanese export zeal, or the speed of change in international marketing capabilities associated with improved production techniques, better communications, and faster transportation. As difficult as trade relations were in the 1960's and early 1970's, they already seem like the "good old days." Today, issues are becoming more complex, old standards (such as the most-favored-nation concept) are eroding, and new trading powers and patterns are emerging. As governments intrude further into the performance of their domestic economies, the dividing line between foreign corporate exporters and the official sector continues to blur.

These new issues and the accelerated rate of change suggest a growing need for a quick "turnaround" time between emergence of a trade problem and a policy response. The Trade Act of 1974, for example, places a number of time limits on trade actions. If one accepts the premise that existing procedures for U.S. international trade and investment policymaking are at best adequate for recent needs, these procedures will be very hard-pressed to cope with the new challenges ahead.

Although it is too soon to make a definitive analysis, the symptoms of these factors may already be surfacing. The U.S. market share for world exports of manufactures has declined to its 1971 levels, i.e. the period before the major exchange rate realignment. The U.S. trade balance, even excepting oil imports, has deteriorated badly since 1973. Our trade surplus in manufactures has disappeared. The fact that the dollar has depreciated mainly against countries with whom our trade is relatively small suggests a low likelihood of a short-term U.S. trade balance improvement through adjustments in the international monetary system. Floating exchange rates are no guarantee of a trade account equilibrium.

The simple arithmetic of a trade balance is subject to a wide range of interpretations as to its significance and impact. Beyond the fact that it surely must be the largest national trade deficit in history, last year's $31 billion U.S. trade deficit (on the balance of payments basis), cannot be analyzed unequivocally. In any event, the need for improved government support for, and understanding of, the U.S. trade performance cannot be dismissed in light of the recent trade performances by West Germany and Japan. These countries can import all of their oil, witness a steady appreciation of their currencies, and yet maintain (at least through

1977) large trade surpluses in the $17 billion range and rigidly hold on to, or increase, their market shares of total world manufactured exports. I doubt if the secret of their success lies in organization. But I believe that better organization might at least illuminate this country's trade shortcomings and more effectively articulate and implement rational corrective steps. DITI must not be programmed to resurrect mercantilist trade policies, i.e., pushing exports for their own sake. But it would be the appropriate vehicle to emulate the positive aspects of foreign official export efforts.

The chief rationale for centralizing trade policy responsibility in a single ministry is not the promise of quick or dramatic improvements in the quality of trade policy or in the arithmetic of our large trade deficit. The chief rationale is that the odds are improved that better trade policy and performance will be forthcoming. The promise of marginal benefits at the very minimum still allows this organizational change to be deemed cost-effective.

Creation of DITI as outlined in this bill would not require the expense or bureaucratic enlargement commonly associated with the birth of a new department. All of the requisite parts for the department already exist and currently are funded in the federal budget. All that is being suggested is the unification of fragmented bureaucratic units. Not even the salary of the new Secretary would need to be added to the budget. Since the Special Trade Representative is already a Cabinet-level position, it is a matter of revising this job description. (If DITI is created, the whole STR operation would be absorbed by it.)

Addressing Existing Organizational Weaknesses

Looked at in "macro" terms, it makes sense to integrate responsibility for, and analysis of, the three major components of international commercial policy: imports, exports, and foreign investment. To oversimplify, full-time, high-level attention improves the chances for effective, consistent policy. This would be the principal mission, or bureaucratic essence, of DITI.

In addition, a centralized department should improve the four-tiered communications process inherent in the formulation and implementation of international commercial policy. By clearly designating principal responsibility, better communications would take place on these levels: intra-Executive Branch, Executive-Legislative Branch, Executive-private sector, and U.S. government-foreign government. Within the Executive Branch, the priority should be creation of a trade policy leader, not a dictator, who is universally known to have primary jurisdiction in international commercial affairs. Stature, not autonomy, would be the hallmark of an effective U.S. trade ministry.

An interagency process of deliberation, albeit a sharply revised one, should continue no matter what organizational changes are made. Once again, the goal should not be to stifle input from other departments; it should be to create a central locus of responsibility and expertise. One of the more efficient coordination groups in the foreign economic policy area has been the International Monetary Group. Its major organizational strength is the clearly recognized -- and accepted -- domination of its chariman, the Treasury Department, in international monetary affairs. Other departments interested in these issues maintain small "watchdog" advisory units that can and do offer specialized viewpoints in the international monetary policy decision-making process. A similar situation should prevail in the trade policy sector.

One of the most important follow-up decisions to assure a successful DITI is how to instill the "proper" international trade and investment analytic capability in the other departments and agencies whose policy mandates (foreign policy, industry, labor affairs, balance of payments, etc.) are affected by trade policies. This capability needs to be vigilant and competent, but incapable of rejuvenating in their entirety the bureaucratic branches that have been clipped and transplanted into DITI.

Still another general argument for strengthening the Executive Branch trade policy apparatus in what I perceive as the need for the President to respond to growing encroachments on his ability to conduct this country's international economic relations. This encroachment takes several forms: increasing Congressional restrictions and leverage in the form of override provisions; increased public access to the court system to appeal Executive Branch decisions, e.g. those rejecting petitions for countervailing duties; and the expansion of the International Trade Commission (ITC) into investigations of foreign trade practices beyond its traditional (and perhaps legal) boundaries.

The result is what I have termed the "adjudicationization" of U.S. trade policy. The Executive Branch, in a manner of speaking, needs all the clout it can muster in influencing the other two branches of the U.S. government, let alone foreign governments and the American public on trade issues.

The challenge to unified U.S. international economic policy is exemplified in the interest of some ITC commissioners, voted down only at the last minute, in instituting on its own behalf a study of unfair pricing practices on the part of European steel producers. Such a study not only would have threatened to sever U.S. trade policy into separate pieces and duplicate anti-dumping investigations, but its timing was such that an active investigation would have jeopardized the Administration's newly proposed and highly fragile "trigger price mechanism" for steel imports. As a European Community official complained at the time, "there is absolutely no need for a duplication of harassment."

Another specific area of organizational weakness that could be rectified by DITI involves U.S. government efforts to promote exports. It is not clear in my mind what is the optimal level of official activity in this field. A reorganization would provide a fresh opportunity to completely review this issue, so long as it was done before DITI itself developed a vested interest in maintaining given personnel and budget levels for export promotion activities.

Creation of DITI also would permit a clear announcement as to who directs this activity and how it is to be done. For an excellent discussion of the clumsy and dissipating nature of bureaucratic rivalries now affecting official export promotion activities, I commend to you an August, 1977 report by the House Government Operations Committee entitled Effectiveness of the Export Promotion Policies and Programs of the Departments of Commerce and State. It concluded that "export promotion efforts will continue to be inefficient and ineffective" as long as objectives are clouded and interdepartmental frictions exist.

Effective U.S. overseas commercial representation at times can make a critical difference in the determination of whether American industry can increase sales and submit successful contract bids. As the oil exporting countries proceed with their massive development programs, the stakes for individual bids on a project can now run into the billions of dollars. One government official recently confided to me his belief that the lack of sufficient U.S. embassy support was instrumental in the awarding of multi-billion Saudi communications equipment contract to a European consortium rather than to American producers.

A final area of specific improvement would be a streamlining of the decision-making process on what technology can and cannot be exported to Communist countries. The effort to speed and unify the official position on such issues would redress one of the most frequently voiced complaints by private sector witnesses to the Commission on the Organization of the Government for the Conduct of Foreign Policy (the so-called Murphy Commission), on whose professional staff I worked.

Conclusions

Oliver Wendell Holmes is reported to have declared that the test of truth is its ability to defend itself in the marketplace. I believe there are compelling reasons and justifications for the organizational changes proposed in this bill. Unfortunately, it is impossible to guarantee or quantify the benefits that would ensue in the form of a more efficient end product, i.e. policy. Without good people, an organization cannot live up to its full potential.

The biggest obstacle facing this bill is inertia. Its supporters must exercise considerable tact, patience, and determination. A long, laborious process is now required to allow all interested individuals and institutions (including the Executive Branch) to compute as best they can the ramifications of creating a trade ministry in terms of their own values, needs, and self-interests. This is a proper and inevitable process. Further hearings by this Committee will be invaluable to the much needed effort to improve international economic policymaking procedures.

A number of adjustments may be needed in the specific provisions of S.1990 to meet legitimate complaints. However, a number of rejoinders appear necessary already to correct what are, in my view, expressions of misplaced fears. A new Department of International Trade and Investment will not monopolize U.S. international economic relations in general or trade policy in particular. It will merely facilitate and strengthen a pluralistic process. Secondly, DITI can easily be prevented from becoming "isolated" by simple organizational adjustments, e.g. requiring that a fixed percentage of its professional staff be seconded for temporary duty from other departments.

The system of checks and balances is too deeply engrained in the American system to allow realization of another fear, already articulated to me. It is highly unlikely that DITI would ever be coopted by adherents of a single trade philosophy. Several persons have privately expressed to me a preference for the existing fragmented, often inefficient system. They argue the latter represents a known given and is therefore preferable to the risk of having an efficient, fine-tuned apparatus fall under the control of "the other side." DITI must work within the context of a diverse Executive Branch and obviously an increasingly activist Congress. Ideological monopolies do not seem to present a clear and present danger to any U.S. trade policy organization

The primary purpose of restructuring and consolidating the process of formulating and conducting international commercial policy is to rationalize, not radicalize this policy. The exigencies of rapid structural changes in the global economy continue to pressure already creaky institutional capabilities.

It is not in the interest of any American individual or group to have a second rate trade policy organization in such a competitive and dynamic global economy. It <u>is</u> in everyone's interest to have a decision-making apparatus that is deemed to possess the optimal capacity for enhancing the economic, political, and commercial interests of this country through decisive, imaginative, and consistent international trade and investment policies.

95TH CONGRESS
1ST SESSION

S. 1990

IN THE SENATE OF THE UNITED STATES

AUGUST 3 (legislative day, JULY 19), 1977

Mr. ROTH (for himself and Mr. RIBICOFF) introduced the following bill; which was read twice and referred to the Committee on Governmental Affairs

A BILL

To establish as an executive department of the Government of the United States a Department of International Trade and Investment, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "International Trade and Investment Reorganization Act".

DECLARATION OF PURPOSE

SEC. 2. (a) The Congress hereby declares that the general welfare requires an effective and efficient coordination of policies of the United States designed to strengthen the international economic and commercial interests of the people of the United States.

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(b) The Congress finds that such coordination is now lacking and that to achieve such coordination it is desirable to establish a Department of International Trade and Investment with responsibility to coordinate and pursue the international economic, commercial, and investment interests of the United States.

ESTABLISHMENT OF DEPARTMENT

SEC. 3. (a) There is hereby established at the seat of government an executive department to be known as the Department of International Trade and Investment (hereinafter referred to in that Act as the "Department"). There shall be at the head of the Department a Secretary of International Trade and Investment (hereinafter referred to in this Act as the "Secretary") who shall be appointed by the President, by and with the advice and consent of the Senate. The Secretary shall be compensated at the rate provided for level I of the Executive Schedule under section 5312 of title 5, United States Code.

(b) There shall be in the Department a Deputy Secretary, who shall be appointed by the President, by and with the advice and consent of the Senate. The Deputy Secretary shall be compensated at the rate provided for level II of the Executive Schedule under section 5313 of title 5, United States Code. The Deputy Secretary (or during the absence or disability of the Deputy Secretary, or in the event of a vacancy in the office of Deputy Secretary, an Assistant Secretary or the General Counsel, determined according to such order as the Secretary shall prescribe) shall act for, and exercise the powers of the Secretary, during the absence or disability of the Secretary or in the event of a vacancy in the office of Secretary. The Deputy Secretary shall perform such functions, powers, and duties as the Secretary shall prescribe from time to time. There shall be in the Department an Under Secretary who shall hold the rank of Career Minister and who shall have the responsibility, under the direction of the Secretary and the Deputy Secretary, of the conduct of all the trade negotiations in which the United States is involved. The Under Secretary shall be compensated at the rate provided for level III in the Executive Schedule under section 5313 of title 5, United States Code. There shall be in the Department five Assistant Secretaries and a General Counsel who shall be appointed by the President by and with the advice and consent of the Senate and who shall perform such functions, powers, and duties as the Secretary shall prescribe from time to time. Such Assistant Secretaries and the General Counsel shall be compensated at the rate provided for level V of the Executive Schedule under section 5316 of title 5, United States Code.

FUNCTIONS

SEC. 4. The Secretary shall—

(1) promote the general prosperity of the United States by strengthening beneficial economic relations between the United States of America and foreign countries;

(2) participate in international trade negotiations as provided by the Congress;

(3) seek fair and equitable international trade rules which do not discriminate against the United States;

(4) protect American industry, agriculture, and labor from unfair or injurious foreign competition;

(5) seek new trade and commercial opportunities for American industrial, agricultural, and service products in foreign countries;

(6) assist in financing international trade between the United States and foreign countries;

(7) develop long-range programs to promote American international economic policy interests abroad, in cooperation with other relevant executive departments, agencies, and other authorities of the United States;

(8) secure access to supplies of raw materials, at competitive prices, which are produced in foreign countries;

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(9) develop and implement policies of the Federal level toward foreign investment;

(10) administer the United States Customs Service and maintain the tariff schedules in the United States;

(11) mobilize and facilitate the participation of American private capital and skills, in the development of the economic and social progress of friendly developing countries and areas,

(12) administer export controls as provided by the Congress; and

(13) assist small businessmen in developing export markets.

GENERAL PROVISIONS

SEC. 5. (a) The Secretary in carrying out the purposes of this Act shall, among his responsibilities, exercise leadership under the direction of the President in international trade and investment matters, including those affecting the national defense and those involving national or regional economic interests within the United States; provide leadership in the development of national investment and trade policies and programs, and make recommendations to the President and the Congress for their consideration and implementation; promote and undertake the development, collection, and dissemination, of technical, statistical, economic, and other information relative to domestic and international trade and investment; consult and cooperate with the Secretary of the Treasury and the Secretary of State in gathering information regarding the status of international trade and investment in which the United States or other countries may be participants; and consult and cooperate with State and local governments and other interested parties, including, when appropriate, holding informal public hearings.

(b) Nothing in this Act shall be construed to authorize, without appropriate action by Congress, the adoption, revision, or implementation, (1) any international trade or investment policy of the United States, or (2) any other investment or trade standards or criteria.

(c) In exercising the functions, powers, and duties conferred on and transferred to the Secretary by this Act, the Secretary shall give full consideration to the need for operational continuity of the functions transferred, to the need for effectiveness and security in international trade and investment systems; and to the needs of national defense.

(d) Orders and actions of the Secretary in the exercise of the functions, powers, and duties transferred under this Act, and orders and actions of any entity the responsibilities of which are transferred to the authority of the Secretary are vested in the Secretary pursuant to the functions, powers, and duties specifically assigned to any such entity by this Act or any other Act of Congress, shall be subject to judicial review to the same extent and in the same manner as if such orders and actions had been by the department or agency or other authority exercising such functions, powers, and duties immediately preceding their transfer. Any statutory requirements relating to notice, hearings, actions upon the record, or administrative review that apply to any functions transferred by this Act shall apply to the exercise of such functions by the Secretary.

(e) In the exercise of the functions, powers, and duties transferred under this Act, the Secretary shall have the same authority as that vested in the department, agency or authority exercising such functions, powers, and duties immediately preceding their transfer, and their actions in exercising such functions, powers, and duties shall have the same force and effect as when exercised by such department, agency, or authority.

(f) The Secretary and the Secretary of the Treasury and the Secretary of State shall consult and exchange information regarding their respective international trade and investment policies and activities; carry on joint planning, research and other activities; and coordinate assistance for investment and trade programs. They shall jointly study how Federal policies and programs can insure that international trade and investment systems most effectively serve both the national economic needs and the needs for a stable world investment and trade economy. They shall, within one year after the effective date of this Act, and annually thereafter, report to the President, for submission to the Congress, on their studies and other activities under this subsection, including any legislative recommendations which they determine to be desirable.

TRANSFERS TO DEPARTMENT

SEC. 6. (a) There are hereby transferred to and invested in the Secretary all functions, powers, and duties of the Special Representative for Trade Negotiations and the Office of the Special Representative for Trade Negotiations in the Executive Office of the President.

(b) Such functions of the Secretary of State, the Department of State and officers and components of such Department as relate to—

(1) commercial affairs and business activities, including export promotion, but not including the reporting of economic conditions in foreign countries;

(2) international investment policy; and

(3) negotiation and implementation of bilateral and multilateral commercial agreements and trade agreements with foreign countries.

(c) Such functions of the Secretary of Commerce as relate to—

(1) export promotion;

(2) foreign investment;

(3) export administration; and

(4) international commerce including East-West trade.

(d) Such functions of the Secretary of the Treasury as relate to—

(1) international trade and investment;

(2) the United States Customs Service; and

(3) the administration of all laws designed to protect the United States against unfair competition in international trade and investment.

(e) Such functions of the International Trade Commission as relate to—

(1) statistical reporting under the Tariff Schedules of the United States; and

(2) the administration of section 337 of the Tariff Act of 1930.

(f) The Export-Import Bank of the United States is hereby transferred to the Department, and there are hereby transferred to and vested in the Secretary all functions, powers, and duties, relating to the Export-Import Bank of the Board of Directors of such Bank and of the other officers and offices of such Bank.

(g) There are hereby transferred and vested in the Secretary all functions, powers, and duties of the Overseas Private Investment Corporation, and of the chairman, members, officers, and offices thereof. The Secretary shall exercise all functions of the President and chief executive officer of the Overseas Private Investment Corporation.

ADMINISTRATIVE PROVISIONS

SEC. 7. (a) In addition to the authority contained in any other Act which is transferred to and vested in the Secretary, or any other officer in the Department, the Secretary is authorized, subject to the civil service and classification laws, to select, appoint, employ, and fix the compensation of such officers and employees, including investigators, attorneys, and hearing examiners, as are necessary to carry out the provisions of this Act and to prescribe their authority and duties.

(b) The Secretary may obtain services as authorized by section 3109 of title 5 of the United States Code, but at rates not to exceed $100 per diem for individuals unless otherwise specified in an appropriation Act.

(c) The Secretary is authorized to provide for participation of military personnel in carrying out the functions of the Department. Members of the Army, the Navy, the Air Force, or the Marine Corps may be detailed for service in the Department by the appropriate Secretary, pursuant to cooperative agreements with the Secretary of Transportation.

(d) (1) Appointment, detail, or assignment to, acceptance of, and service in any appointive or other position in the

Department under the authority of section 9 (c) shall in no way affect status, office, rank, or grade which officers or enlisted men may occupy or hold or any emolument, perquisite, right, privilege, or benefit incident to or arising out of any such status, office, rank, or grade, nor shall any member so appointed, [illegible]d, or assigned be charged against any statutory limitation on grades or strengths applicable to the Armed Forces. A person so appointed, detailed, or assigned shall not be subject to direction by or control by his armed force or any officer thereof directly or indirectly with respect to the responsibilities exercised in the position to which appointed, detailed, or assigned.

(2) The Secretary shall report annually in writing to the appropriate committees of the Congress on personnel appointed and agreements entered into under subsection (c) or this section, including the number, rank, and positions of members of the armed services detailed pursuant thereto.

(e) (1) Except where this Act vests in any administration, agency, or board, specific functions, powers, and duties, the Secretary may, in addition to the authority to delegate and redelegate contained in any other Act in the exercise of the functions transferred to or vested in the Secretary in this Act, delegate any of his residual functions, powers, and duties to such officers and employees of the Department as he may designate, may authorize such successive redelegations of such functions, powers, and duties as he may deem desirable, and may make such rules and regulations as may be necessary to carry out his functions, power, and duties.

(2) In addition to the authority to delegate and redelegate contained in any other Act, in the exercise of the functions transferred to or specified by this Act to be carried out by any officer in the Department, such officer may delegate any of such functions, powers, and duties to such other officers and employees of the Department as he may designate; may authorize such successive redelegations of such functions, powers, and duties as he may deem desirable; and may make such rules and regulations as may be necessary to carry out such functions, powers, and duties.

(f) The personnel, assets, liabilities, contracts, property, records, and unexpended balances of appropriations, authorizations, allocations, and other funds employed, held, used, arising from, available or to be made available, of the Export-Import Bank or the Overseas Private Investment Corporation or the Office of the Special Representative for Trade Negotiations, and of the head and other officers and offices thereof, are hereby transferred to the Secretary.

(g) So much of the positions, personnel, assets, liabilities, contracts, property, records, and unexpended balances of appropriations, authorizations, allocations, and other funds employed, held, used, arising from, available or to be made available in connection with the functions, powers, and duties transferred by sections 6 (except section 6 (c)) and 8 (d) and (e) of this Act as the Director of the Bureau of the Budget shall determine shall be transferred to the Secretary.

(h) The transfer of personnel pursuant to subsections (f) and (g) of this section shall be without reduction in classification or compensation for one year after such transfer.

(i) In any case where all of the functions, powers, and duties of any office or agency are transferred pursuant to this Act, such office or agency shall lapse. Any person who, on the effective date of this Act, held a position compensated in accordance with the Executive Schedule, and who, without a break in service, is appointed in the Department to a position having duties comparable to those performed immediately preceding his appointment shall continue to be compensated in his new position at not less than the rate provided for his previous position, for the duration of his service in his new position.

(j) The Secretary is authorized to establish a working capital fund, to be available without fiscal year limitation, for expenses necessary to the maintenance and operation of such common administrative services as he shall find to be desirable in the interest of economy and efficiency in the Department, including such services as a central supply service for stationery and other supplies and equipment for which adequate stocks may be maintained to meet in whole or in part the requirements of the Department and its agencies; central messenger, mail, telephone, and other communications services; office space, central services for document reproduction, and for graphics and visual aids; and a central library service. The capital of the fund shall consist of any appropriations made for the purpose of providing capital (which appropriations are hereby authorized) and the fair and reasonable value of such stocks of supplies, equipment, and other assets and inventories on order as the Secretary may transfer to the fund, less the related liabilities and unpaid obligations. Such funds shall be reimbursed in advance from available funds of agencies and offices in the Department, or from other sources, for supplies and services at rates which will approximate the expense of operation, including the accrual of annual leave and the depreciation of equipment. The fund shall also be credited with receipts from sale or exchange of property and receipts in payment for loss or damage to property owned by the fund. There shall be covered into the United States Treasury as miscellaneous receipts any surplus found in the fund (all assets, liabilities, and prior losses considered) above the amounts transferred or appropriated to establish and maintain said fund.

(k) The Secretary shall cause a seal of office to be made for the Department of such device as he shall approve, and judicial notice shall be taken of such seal.

(l) In addition to the authority contained in any other Act which is transferred to and vested in the Secretary, or other officer in the Department, as necessary, and when not otherwise available, the Secretary is authorized to provide for, construct, or maintain the following for employees and their dependents stationed at remote localities:

(1) emergency medical services and supplies;

(2) food and other subsistence supplies;

(3) messing facilities;

(4) motion picture equipment and film for recreation and training;

(5) reimbursement for food, clothing, medicine, and other supplies furnished by such employees in emergencies for the temporary relief of distressed persons; and

(6) living and working quarters and facilities.

The furnishing of medical treatment under paragraph (1) and the furnishing of services and supplies under paragraphs (2) and (3) of this subsection shall be at prices reflecting reasonable value as determined by the Secretary, and the proceeds therefrom shall be credited to the appropriation from the expenditure was made.

(m) (1) The Secretary is authorized to accept, hold, administer, and utilize gifts and bequests of property, both real and personal, for the purpose of aiding or facilitating the work of the Department. Gifts and bequests of money and the proceeds from sales of other property received as gifts or bequests shall be deposited in the Treasury in a separate fund and shall be disbursed upon [illegible] of the Secretary. Property accepted pursuant to this paragraph, and the proceeds thereof, shall be used as nearly as possible in accordance with the terms of the gift or bequest.

(2) For the purpose of Federal income, estate, and gift taxes, property accepted under paragraph (1) shall be considered as a gift or bequest to or for use of the United States.

(3) Upon the request of the Secretary, the Secretary of the Treasury may invest and reinvest in securities of the United States or in securities guaranteed as to principal and interest by the United States any moneys contained in the fund provided for in paragraph (1). Income accruing from such securities, and from any other property held by the Secretary pursuant to paragraph (1) shall be deposited to the credit of the fund, and shall be disbursed upon order of the Secretary.

(n) (1) The Secretary is authorized upon the written request of any person, or any State, territory, possession, or political subdivision thereof, to make special statistical studies relating to foreign and domestic transportation, and special studies relating to other matters falling within the province of the Department, to prepare from its records special statistical compilations, and to furnish transcripts of its studies, tables, and other records upon the payment of the actual cost of such work by the person or body requesting it.

(2) All moneys received by the Department in payment of the cost or work under paragraph (1) shall be deposited in a separate account to be administered under the direction of the Secretary. These moneys may be used, in the discretion of the Secretary, for the ordinary expenses incidental to the work and/or to secure in connection therewith the special services of persons who are neither officers nor employees of the United States.

(o) The Secretary is authorized to appoint, without regard to the civil service laws, such advisory committees as shall be appropriate for the purpose of consultation with and advice to the Department in performance of its functions. Members of such committees, other than those regularly employed by the Federal Government, while attending meetings of such committees or otherwise serving at the request of the Secretary, may be paid compensation at rates not exceeding those authorized for individuals under subsection (b) of this section, and while so serving away from their homes or regular places of business, may be allowed travel expenses, including per diem in lieu of subsistence, as authorized by section 5703 of title 5, United States Code, for persons in the Government service employed intermittently.

(p) (1) The Secretary is authorized to enter into contracts with educational institutions, public, or private agencies or organizations, or persons for the conduct of scientific or technological research into any aspect of the problems related to the programs of the Department which are authorized by statute.

(2) The Secretary shall require a showing that the institutions, agencies, organizations, or persons with which he expects to enter into contracts pursuant to this subsection have the capability of doing effective work. He shall furnish such advice and assistance as he believes will best carry out the mission of the Department, participate in coordinating all research initiated under this subsection, indicate the lines of inquiry which seem to him most important, and encourage and assist in the establishment and maintenance of cooperation by and between the institutions, agencies, organizations, or persons and between them and other research organizations, the Department, and other Federal agencies.

(3) The Secretary may from time to time disseminate in the form of reports or publications to public or private agencies or organizations, or individuals such information

as he deems pertinent on the research carried out pursuant to this section.

(4) Nothing contained in this subsection is intended to amend, modify, or repeal any provisions of law administered by the Department which authorize the making of contracts for research.

CONFORMING AMENDMENTS TO OTHER LAWS

SEC. 8. (a) Section 19(d)(1) of title 3, United States Code, is hereby amended by striking out the period at the end thereof and inserting a comma and the following: "Secretary of International Trade and Investment".

(b) Section 101 of title 5, United States Code, is amended by inserting at the end thereof the following:

"The Department of International Trade and Investment".

(c) The amendment made by subsection (b) of this section shall not be construed to make applicable to the Department any provision of law inconsistent with this Act.

(d) Subchapter II (relating to executive pay schedule rates) of chapter 53 of title 5, United States Code, is amended as follows:

(1) Section 5312 is amended by striking out

"(13) Special Representative for Trade Negotiations"

and inserting in lieu thereof

"(13) Secretary of International Trade and Investment".

(2) Section 5313 is amended by adding at the end thereof:

"(24) Deputy Secretary of the Department of International Trade and Investment".

(3) Section 5316 is amended by adding at the end thereof the following:

"(141) Assistant Secretaries Department of International Trade and Investment (6)

"(142) General Counsel of the Department of International Trade and Investment.".

ANNUAL REPORT

SEC. 9. The Secretary shall, as soon as practicable after the end of each fiscal year, make a report in writing to the President for submission to the Congress on the activities of the Department during the preceding fiscal year.

SAVINGS PROVISIONS

SEC. 10. (a) All orders, determinations, rules, regulations, permits, contracts, certificates, licenses, and privileges—

(1) which have been issued, made, granted, or allowed to become effective—

(A) under any provision of law amended by this Act, or

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(B) in the exercise of duties, powers, or functions which are transferred under this Act,

by (i) any department or agency, any functions of which are transferred by this Act, or (ii) any court of competent jurisdiction, and

(2) which are in effect at the time this Act takes effect, shall continue in effect according to their terms until modified, terminated, superseded, set aside, or repealed by the Secretary (in the exercise of any authority respectively vested in him by this Act), by any court of competent jurisdiction, or by operation of law.

(b) (1) The provisions of this Act shall not affect any proceedings pending at the time this section takes effect before any department or agency (or component thereof), functions of which are transferred by this Act; but such proceedings, to the extent that they relate to functions so transferred, shall be continued before the Department. Such proceedings, to the extent they do not relate to functions so transferred, shall be continued before the department or agency before which they were pending at the time of such transfer. In either case orders shall be issued in such proceedings, appeals shall be taken therefrom, and payments shall be made pursuant to such orders, as if this Act had not been enacted; and orders issued in any such proceedings shall continue in effect until modified, terminated, superseded, or repealed by the Secretary (in the exercise of any authority respectively vested in him by this Act), by a court of competent jurisdiction, or by operation of law.

(A) the provisions of this Act shall not affect suits commenced prior to the date this section takes effect, and

(B) in all such suits proceedings shall be had, appeals taken, and judgments rendered, in the same manner and effect as if this Act had not been enacted.

No suit, action, or other proceeding commenced by or against any officer in his official capacity as an officer for any department or agency, functions of which are transferred by this Act, shall abate by reason of the enactment of this Act. No cause of action by or against any department or agency of which are transferred by this Act, or by or against any officer thereof in his official capacity shall abate by reason of the enactment of this Act. Causes of action, suits, actions, or other proceedings may be asserted by or against the United States or such official of the Department as may be appropriate and, in any litigation pending when this section takes effect, the court may at any time, on its own motion or that of any party, enter an order which will give effect to the provisions of this subsection.

(2) If before the date on which this Act takes effect, any department or agency, or officer thereof in his official capacity, is a party to a suit, and under this Act—

(A) such department or agency is transferred to the Secretary, or

(B) any function of such department, agency, or officer is transferred to the Secretary,

then such suit shall be continued by the Secretary (except in the case of a suit not involving functions transferred to the Secretary, in which case the suit shall be continued by the department, agency, or officer which was a party to the suit prior to the effective date of this Act).

(c) With respect to any function, power, or duty transferred by this Act and exercised after the effective date of this Act, reference in any other Federal law to any department or agency, officer or office so transferred or functions of which are so transferred shall be deemed to mean the officer or agency in which this Act vests such function after such transfer.

SEPARABILITY

SEC. 11. If any provision of this Act or the application thereof to any person or circumstances is held invalid, the remainder of this Act, and the application of such provision to other persons or circumstances shall not be affected thereby.

CODIFICATION

SEC. 12. The Secretary is directed to submit to the Congress within two years from the effective date of this Act, a proposed codification of all laws that contain the powers, duties, and functions transferred to or vested in the Secretary or the Department by this Act.

EFFECTIVE DATE; INITIAL APPOINTMENT OF OFFICERS

SEC. 13. (a) This Act shall take effect ninety days after the Secretary first takes office, or on such prior date after enactment of this Act as the President shall prescribe and publish in the Federal Register.

(b) Any of the officers provided for in this Act may (notwithstanding subsection (a)) be appointed in the manner provided for in this Act, at any time after the date of enactment of this Act. Such officers shall be compensated from the date they first take office, at the rates provided for in this Act. Such compensation and related expenses of their offices shall be paid from funds available for the functions to be transferred to the Department pursuant to this Act.

The committee is in adjournment.

[Whereupon, at 1:15 p.m., the committee adjourned, subject to the call of the Chair.]

TO CREATE A DEPARTMENT OF INTERNATIONAL TRADE AND INVESTMENT

MONDAY, MAY, 1, 1978

U.S. SENATE,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, D.C.

The committee met at 10:35 a.m., pursuant to call, in room 3302, Dirksen Senate Office Building, Hon. William V. Roth, Jr., presiding.

Present: Senator Roth.

Senator ROTH. I want to start out this morning by apologizing to our witnesses for the lateness of the hour. I seriously considered coming down here and substituting hearings on Amtrak instead of the International Trade Investment Reorganization Act. But I think we will delay that until another date.

This morning, we are holding the second in a series of hearings on this legislation S. 1990. As you know, this bill proposes the creation of a new Department of Trade and Investment, consolidating a number of existing agencies and offices in this area. The urgency of a strong United States international trade policy has, as you gentlemen well know, become much more compelling with each passing month. I was pleased by the President's emphasis on a stronger export effort in his recent anti-inflation message.

These words must now be backed by some real action. Our Nation desperately needs a national export policy to stay competitive in world markets; to create new jobs for American workers and to be able to afford imports of raw materials and other goods we need or want.

To have good policy we also need superior organization to sustain that policy over the long haul. Today's mishmash of departments and agencies fighting for jurisdiction over trade and investment issues not only inhibits the development of sound policies, but means those who want to export the American-made goods and services are lost in the shuffle.

Moods, attitudes, the competence factor strongly influence the economic climate. The climb of the dollar, the resurgence of inflation, high taxes and unemployment, energy stringencies and the lack of coherent economic programs to deal with these problems have had a depressing effect on the American economy and the world.

Creation of a Department of International Trade and Investment would show the world that the United States intends to make overseas trade a high economic priority. It will give a very important psychological boost to American exporters and help restore U.S. economic leadership.

For that reason I strongly urge the administration to give this concept very high level and expeditious consideration.

As today's first witness, I am pleased to welcome an old friend and colleague, Mr. William J. Barton. Bill is here in his personal capacity as President of the International Business Government Counsellors, Inc.

He is an international lawyer, Government relations specialist, a professor at the Georgetown University School of Foreign Service. Bill Barton has followed closely the development of U.S. trade policy for 25 years and is one of the top specialists in his field. I regret that we asked you to testify today, Bill, on such short notice. I very much appreciate your taking the time to share your thoughts on the subject of the organization of U.S. economic policymaking.

TESTIMONY OF WILLIAM J. BARTON, PRESIDENT, INTERNATIONAL BUSINESS-GOVERNMENT COUNSELLORS, INC., WASHINGTON

Mr. BARTON. Thank you very much, Senator Roth. It really is a privilege to be here. If this isn't as erudite testimony as a Ph. D. thesis, I think you appreciate that it has been put together fairly quickly. But the thoughts have not been put together fairly quickly.

I have been exceedingly concerned about this problem, America's economic position in the world, for many, many years.

The matter of the organization of the Government, to me is the most significant thing that could be done today.

If the other members of the committee and the Congress, and the media were fully aware of what this might mean, they would be here today very interested in supporting your bill and saying we must get down beneath all these symptoms.

The headlines for the last several years show more and more problems with the American economy, with imports, with problems with our business overseas, one after the other. We are blindly going around fighting tactical skirmishes trying to accomplish something today and not getting to the fundamental heart of it all.

I was in Houston for the Southwest International Trade Conference on April 11 as a moderator. The chief executive officer of General Electric, Reginald Jones, gave a great blueprint for what American economic policy should be today—an excellent presentation.

However, he did not talk about how we will achieve it. I am convinced we will not achieve it and, very little of what he said will be adopted until there is more attention to what you are proposing in some type of new organization of the Government for international economic policy, such as the department of International Trade.

President Carter is quite concerned about the severe historical deficit in trade and payments and the dollar going lower and lower. He called together an interagency task force under Commerce Assistant Secretary Weil. They have got 60 days, now 45 days to report. I have so often seen this business of reacting to an immediate situation; and they will mean well. They will try to do well. They are dedicated in all those departments.

But they are not going very far because there is no central authority anywhere that is going to really achieve results. Poor Assistant Secretary Weil is going to find out that when he says, "Let's get small businessmen to combine to be able to export like the Japanese, like the French, like everybody else," Justice will say, "Oh, no. We don't want to change the Webb-Pomerene Act."

When he turns around and says let's do this or that, he will get another complaint from another department. Pretty soon he will say, "We had all these wonderful ideas, but they were shot down."

As I say in my statement, back in 1968 I had the most disappointing and discouraging experience in my career when I was in the Commerce Department as a consultant on export strategy, with all the great concerns then. And we did a magnificent study on the export of commercial aircraft and had a comprehensive report with recommendations.

The whole thing fell apart on recommendations because Commerce didn't have the authority to achieve the results needed and Treasury fought half of them, State the other half, other organizations in the Government fought everything.

For the disorganization, then and now, I don't think a Party is to blame. I don't think an individual is to blame. It is that we have got a topsy situation, historical accident as to how an international economic period is handled. It was all right in the 1900's; even not so bad several years ago. But the global economy is one we cannot compete in, or operate in, trade or invest in without a change in organization.

It doesn't involve Band-Aid activity. It involves some major surgery and rather rapidly because the patient is not too well and is getting sicker.

In terms of what went wrong, I think Senator Ribicoff spotlighted it. He used the phrase, "eco-politics," and pointed out today that the problem may be for America, not foreign political and strategic military concerns, but foreign economic matters—and we must concentrate on this.

In political and military policies, we are pretty good. We have a great Defense Department, regardless of criticisms. We have a marvelous mechanism regarding political issues in foreign policy. But while all this is going on, the economic side is in a state of serious concern. So while a future global war, or the problem of the military and strategic political areas have great attention, those conflicts may never hurt us.

But international economic issues will debilitate America. I won't dwell on all the fragmentation and competitive problems which are inherent in the Federal Government, and the executive branch. You are more familiar with them than I. But as an outside consultant and businessman, first with Alcoa, then working with a lot of other companies, it just struck me that it is a tragic situation.

People will say, well, organization isn't so important. You can't guarantee sound policies just by organization, whether it is in a church group, a company, or a government. That is a truism. You can't guarantee them.

But I think you can guarantee you will not have sound policies if you don't have sound organization. That is what we have got today. It is not a panacea just to have organization. We must have the right people and develop the right policies; but without organization, nothing is going to happen.

I had listed in my statement a number of cases of the type of situations, which could go on and on. I will just mention a few points here, and just submit my statement for the record.

I do believe in many departments there is failure on the policymakers to be fully aware of global economic realities, of a world not just of old-fashioned trade, export and import, but foreign production sourcing all over the world by major multinational enterprises of all nationalities. This causes a lot of problems and opportunities that didn't exist, say, 15, 20, 25 years ago.

There must be greater attention to this as to what the sourcing means. For example, with Japan, I think there will be less and less problems of direct Japanese trade over the years because they are moving many operations to Korea, Taiwan, Tailand, low-cost areas, for export to the United States.

On the matter of policymaking officials—their qualifications and continuity—and this is no criticism of anybody present or past in the government, but take the Commerce Department; there has been a game of musical chairs there.

The Assistant Secretary for International Business for about a dozen years now has had an average tenure of a little over a year. It takes a new man 6 months to learn what is going on. He comes up with ideas and he is gone.

I think there could be a great inquiry that could be done by your committee or by the GAO about the reorganization of the Commerce Department internationally. It has been going on since 1961 and 1962, shifting and going around and around. I think we have problems there. They are trying to cope with the problems. That is why you get these reorganizations.

I don't believe they can cope with them because they don't have the power and the authority and the people and the resources. They are scattered all over the Government.

Again, the business of organization, we have had in the past a national export expansion coordinator, Dan Goldy, who was very instrumental. We had the President's Export Council. chaired by Fletcher Byrom of Koppers Co., an instrument of the Commerce Department.

You and Mr. Byrom, for example, if his recommendations were listened to by Treasury, State, and other people. No; because the Council is an appendage of the Commerce Department.

You ask Assistant Secretary Weil; he is going to be tearing his hair out in the next few months when he tries to get results with other departments, because they are going to say, "You have got your place over there. This is ours."

Economic and market intelligence: it is scattered all over the Government. I suppose we could get the CIA to tell us what a Soviet tank batallion had for breakfast in Kiev this morning. But I don't think you could get them to tell you all about the high technology industrial development going on in Germany and Japan, and what it means to America 5, 10, 15 years from now.

In 1958 with Alcoa, I came down to Washington and did a big study on India. I found an awful lot about it. I was amazed at what I found in the nooks and crannies. The average small businessman couldn't afford that. I was being paid by a big company, and I could do it. But he can't search all over the Bureau of Mines, in the Commerce Department, in the State Department, in the Agriculture Department, in the International Trade Commission; it is all over the place.

Can't we have him go to one department or one place and say, "This is the type of thing you need to sell your widgets in Brazil, Peru, or Spain, what-have-you."

Taxation: this is amusing if it weren't so tragic. The Treasury Department means very well in trying to get more revenues. But they keep coming up with proposals which have a net effect of deterring American exports and investments.

They say their business is revenues. I asked an Assistant Secretary of State, under Secretary Kissinger, "Do you people favor exports?" "Of course." "Do you think a lot of foreign investments?" "Yes; we do. That is a fine idea." "What are you doing about the tax proposals?" "That is revenue. We don't go over there. Those are revenue measures. We can't go and tell the Treasury Department what to do."

But the impact of what Treasury does affects exports and imports, and business and jobs, and it isn't just a revenue matter.

Antitrust: this is very interesting. Once in a while you get the rest of the Government together. For example, I mentioned the Webb-Pomerene Act idea. I chaired a chamber of commerce group a few years ago. Senator Inouye was very interested in widening the Webb-Pomerene Act exemption to allow a lot of small businessmen to get together. It isn't for the giant companies. It is for the small and medium businesses.

Justice was in there saying, "You can't change the antitrust laws, or that is going to be the nose of the camel under the tent," so to speak.

But nothing happened. So it collapsed. I had a call 2 weeks ago from a bureau head in Commerce. "Say, we are looking into trying to change the Webb-Pomerene Act. What do you think of it?" I said, "Commerce Secretary Luther Hodges tried that in 1962, and he was told to try to stop doing this; and we tried a few years ago." So I said, "Don't spend too much time on it because until Justice signs off, don't put a lot of research into it because they will veto it in a hurry, and they will go up to the Hill and tell them you are trying to sneak around the antitrust laws."

We could go on. Export expansion. I mentioned those two pretty well. The Eximbank is a real football. So often critics say, "Why help these businessmen and give more money from the taxpayer to the companies?" They don't say, what does Japan do, what does Germany do, what does France do, what do your competitors do for their exporters? Those foreign countries believe in international business and trade. It is vital for their survival and welfare. They are not trying to figure out how to hobble the businessman operating overseas.

East-West trade is a real Catch-22 situation, where you have to figure out one part the Government is saying; export more to the Soviet Union and East Europe. Other parts are saying the opposite. The export control procedure is a Rube Goldberg setup. Anyone who gets a license should get a degree in government because he understands how to operate in a bureaucracy when you get a license to be able to sell to a Communist country, and if you have the patience to go through the whole process.

Import relief. Let's say this: There are a lot of people being hurt by unfair competition in America, and some by fair competition. Today it is highly complex and difficult to know how to get relief for them; not welfare, but help them get into other fields and make them viable in our economy. But the complexities are great—a Labor Department official told me even a lot of these smaller unions don't know how to use this system. Commerce handles some; Labor handles some. It is confused.

I will just say briefly a comparison of the United States with competitive nations. I had a rather unusual position for about 10 years with a company that took me around the world. We had conferences with foreign governments. We did great research on their policies and how they operate: Japan, Germany, and other nations.

I can categorically say that their organization for international economic policy would put the U.S. Government in the bush leagues; whereas, militarily, our organization is great, and for foreign political policy as well. Economically, we are nothing like our competing countries.

Do I criticize the Japanese or their Government? Not at all. I take my hat off to them. I think they are brilliant, well organized. They know where they are going, and they are doing a great job.

We should be criticized for failing to get into a competitive basis in terms of foreign economic policy.

In my final comments I will just say—maybe I am going a little too long, Senator.

Senator ROTH. Not at all.

Mr. BARTON. Let me say when we get right down to do it, well, so what? What is the solution? I have considered this and analyzed and evaluated it. Whatever alternative is found, I think we have got to have a central place in Government where there is international economic and market intelligence without a doubt. We have got to have a central place where there is forecasting.

Pete Peterson tried to do this when he headed the Council on International Economic Policy and the Commerce Department; and it has been dissipated, to really follow what our competitor nations are doing, what their industries are doing, what is happening abroad to help the Congress and the administration and private business and labor effectively to compete on a fair basis.

That is the kind of world we want, fair and equitable competition. But I think you must have a terrible time in the Congress when you get testimony up here on what is the true situation because you can't get right statistics and facts from the executive branch.

One witness says one thing and another says another. But that isn't true in the military area. I think the most important thing we need is an advocate for Americans in an international position, a spokesman, a department head who really can say, "In order for us to be competitive in exports, this is the policy that is recommended."

It doesn't mean the President has to accept that or the Congress. But today there isn't any advocate. The Secretary of State, the Secretary of the Treasury, and the Secretary of Commerce, most of their views are contrived by domestic considerations, economic and political. They will tell you, "Oh, we think about the international. It is very important." But there is no strong advocate in the Cabinet or at the White

House level saying to the President, "But if you do this * * *. If we don't give any exclusion whatsoever for our executives and workers overseas, this will harm us enormously with our competitor contractors and companies around the world." There is not one to tell him that within the staff or the Cabinet.

It has already been muted and decided by domestic aspects in each department. If you had this advocate, then this advocate could present a position for a group decision so the President could then listen to the various departments, and to Defense and the political side of State.

But the international trade side would be heard in a very thorough way to enable a sound decision at the top.

Finally, to which side of the fence I am on, I believe there is a great need for a new Department of International Trade just as you proposed in S. 1990.

However, I don't think that is enough. I do believe that at the White House level there is need for an international economic policy council; but one that acts as a coordinating group to get input from the International Trade Department and other departments with international aspects, such as political.

Then you have to have the President at the top, whether through an "economic policy board" or the Cabinet, actually get then the international input and the domestic input, and come up with a decision.

But I am saying that I really believe that you do still need to get cooperation in the Government, even though you put, as you propose in your bill, a lot of the present international trade activities from Commerce, State, and Treasury, into the new Department. There are still activities of many other departments like Agriculture impinging in this area. That is why I said I believe you need a "White House international economic policy council," a small staff there; and the next level being the final Presidential decision level with an "economic policy board" where you get the international and domestic inputs.

In conclusion, I would just like to say that I cannot think today of any more important subject in the Congress than the bill that you are proposing and Senator Ribicoff is cosponsoring. I am convinced that this is going to be well known over the next few months.

We certainly hope that you will continue to persevere to educate, to inform, that this is not some boring subject of organization or a new department, but it is fundamental to try to approach all the various international economic subjects, as it is done by most of the leading industrialized countries of the world. So it is not a totally new concept.

But if we are going to compete—and not just compete; I use that word not in any negative sense—if we are going to help lead, to be active in an interdependent world, to help develop the other nations to achieve their goals, we have to be properly structured, organized and staffed.

Thank you for having me up here this morning.

Senator ROTH. Thank you, Bill, for your very informative and interesting testimony.

On the question of visibility of this issue, I would like to make a plea to you and to your group to try to do as much as you can to make people aware of the problem.

I think you are right. I think the international economic area is perhaps, if not the most, certainly one of the most critical problems facing this Nation.

While you get people talking about specific problems, it is never very exciting to talk about organization. Yet somehow we have to get rid of this "horse and buggy" apparatus with which we are dealing with this problem.

I do think it is awfully important that in the private sector—I make the same plea to everyone here who is interested in the problem—that we have got to get more visibility for the need for reform and restructuring of the Government.

One of your comments about the need of a coordinating mechanism, I certainly would have no disagreement with that because I think it makes no difference as to how you structure a new trade organization.

There are certain responsibilities in other departments which bear directly on international economic affairs. So that it seems to me there is great merit to have some coordinating mechanism at the White House level.

I do not think it is a substitute as some people have argued, for a new department because a coordinating mechanism cannot provide the indepth studies and policy development that is needed.

One of my concerns is that we don't look down the road as to where we are going or where we want to be in the international economic area. Like you, I have been impressed by the Japanese, the Germans and others. They look down 5 or 10 years hence and are beginning to try to develop some policy recommendations as to what should be done to be competitive in the future. Whereas here, we really react more to the problems of the moment.

In the export promotion area, I understand, for example, to give some substance to what we are talking about, the British publish their trade opportunity bulletin on a daily basis, and that it takes a maximum of 72 hours from the time the opportunity is reported until it is made known to the business community there.

We publish a trade opportunity bulletin on a weekly basis. Currently there are backlogs of 20 days or more for some items. Doesn't this really put our businessmen at a great disadvantage with their very able foreign competitors, to know about an opportunity, say, a week or two later after the British or Germans, whoever?

Do you think we should devote more resources to our business and export opportunity intelligence programs?

Mr. Barton. I believe we should. Perhaps your committee has studied this to some degree. But there have been efforts to try to do this ever since Assistant Secretary Jack Behrman came in in 1961. They have tried and they keep changing it around.

They run into some political problems due to certain department officials having political relations to the party. There is the lack, again, of a truly professional commercial attaché system around the world. There are some fine Americans today in the Foreign Service commercial system.

But you go to a given embassy or consulate, and you will never know. You may get a very dedicated person or one who couldn't care less about trying to help some and semiconductor computer component man from California do something.

I think you are completely right that there has to be much better, more rapid intelligence. Maybe it is worth it to computerize the whole thing in the district offices around the country. I think there has to be less fanfare than just plain exhortation, and more specific intelligence and specific aid in the smaller or medium-sized companies that don't do much today, very specific and tailored, and geared to them.

Senator ROTH. I agree with that latter point. Of course, the larger corporations are in a much better position to take care of their own needs.

But if smaller businesses are going to participate they are going to need, it seems to me, greater help. One answer a lot of people throw at us is, they say, "Really it is not reorganization that is needed, it is the dollar devaluation that is going to bring about the turn around that we need."

Let me ask you this question: Beyond a new department, do you believe we need changes in our tax and investment policies to insure the competitiveness of our industry?

Mr. BARTON. Very much. I believe that first of all, we should stop the changes that are being proposed to cut back on certain present taxation policies which would put American business in an adverse position as compared with other industrialized countries' companies.

But we have to be fully aware of what these countries are doing at all times. There are some great subtleties. I will tell you one right now that is not talked about very much.

I heard some people say we ought to get rid of the DISC right now; it is an export subsidy—which it is.

They said, "Well, it is only Japan, France, and one other country that has such a thing." But there are some other great subtleties. Belgium and many countries have the best DISC in the world, no tax arrangements because they can set up a trading company in Switzerland, Liechtenstein or Jersey Island, transfer at cost and pay no taxes whatsoever. The Japanese can do the same. Until 1962 American companies could do that, and then Treasury Assistant Secretary Stanley Surrey put through the Revenue Act of 1962 and stopped it. So this amazing fact strikes me as such a great loophole for our competitors—Germany doesn't because Germany followed our pattern and eliminated that for their companies.

But most of the others can and do do that. That is a tough one to compete with when they can put all their profits away from taxes in their profit sanctuary. But that isn't even discussed by the Treasury or anyone on the Hill today.

Senator ROTH. One thing that bothered me was that the administration, in the case of DISC, wanted to unilaterally do away with it and not get anything in return for it.

I raised that question with our special trade representative. His statement was he didn't think it would make much difference in those negotiations. With that I disagree.

Mr. BARTON. It would make a lot of difference. Again, it isn't just negotiating to get the three other countries that have a direct subsidy, to get rid of them; it is in other things to change certain nontariff barriers. It is a horse trading.

Maybe you ought to put a law in Belgium to stop their companies from using Liechtenstein and Switzerland, what have you. There are other devices that have to be used. One thing you asked about, also, Senator, was the monetarists. They concern me a lot. Treasury and the Council on Economic Adviser have often said it is only the value of the dollar, and that is what will solve the whole trade problem. There have been a number of people over the years like that sitting in the Treasury. I think it is erroneous. You don't turn exports on and off. You don't say, "No let's see things are looking bad again; let's do things to help exports."

We have got a lot of people here who are really in the front line of American exporting in business in Asia and Europe. You don't suddenly say, "Let's develop a market in Singapore, Barcelona."

It can't be done. It takes years and years of relationships and development. Yet when we have the dollar looking good one way they take a certain position. When it goes down, they take another. Trade is long-term relationships with human beings in foreign countries. That must be developed and not just say, the currency is going to solve our long-term problems.

At a given moment the value of the dollar can, indeed, have a very profound effect. But for the long haul, we have to look at it like the Romans and the British and the Japanese and everybody else, of long-term business relations around the world.

That takes a lot more than the current value of the dollar.

Senator ROTH. As you well know, we are entering a very important, or will soon be entering a very important phase of the current Tokyo round of trade negotiations, which will involve the so-called nontariff barriers. I think it would be very helpful to those of us that are involved with oversight, to have the comments and opinions of those of you who are involved in this area, to insure that in that swapping, that horse trading, we see a real return for what we give up. It is sometimes hard to scrutinize from an oversight position unless you are really involved in those matters on a long-term basis.

One final question: I would like to go back to our commercial attaché system.

You do, as you pointed out, have many people say that in particular countries you have some outstanding individuals who are very helpful in the promoting of American made goods.

In other areas you find something to be lacking, at least these are the comments of some business observers.

Do you believe that the system, the commercial attaché system should be entirely within the new Department instead of the State Department?

Mr. BARTON. Very definitely. I think the commercial attaché system hopefully would go into a new Department and tie in the agricultural attachés, the labor attachés, the treasury attachés, all over the place; these should be tied in, too.

There are all sorts of people operating out of different departments. They might on a "dotted line" basis relate to these other departments, but be under the central new Department. If there is not a new department, I believe the place for the commercial attaché system is in the Commerce Department.

But it is a classic case of territorial turf where the State Department will not give this up without a battle down in "Foggy Bottom," I am sure. I don't blame them. If I were over there, I probably would want to do the same.

We are all human and we fight for territory. But in terms of America, I think we need a career system of people who want to help America—not just exports, not just look into the import situation and antidumping and other evidence you must get from foreign countries, but the whole impact on the American system on the world, career people who are rewarded by advancement, promotion and what have you, and an appropriate position by what they have done all their lives in that place.

Many companies will tell you when they go overseas, they don't go to the American Embassy; they go to the Canadian Embassy because the Canadian Trade Commissioners are so good; if they are lucky, maybe Japanese.

There are just a lot of people who are very effective in this area. We don't have a system that makes them effective. Individuals may be. But we don't have the training and the education. They suddenly will assign someone to that role because, well, "We had to put them in some box, so we will put them in trade or economics," and they have never been in there before. It is frightening.

Senator ROTH. Mr. Barton, I want to thank you for coming up here this morning. We look forward to having you again.

Mr. BARTON. Thank you very much, Senator.

[The prepared statement of Mr. Barton follows:]

PREPARED STATEMENT OF WILLIAM J. BARTON, PRESIDENT, INTERNATIONAL BUSINESS-GOVERNMENT COUNSELLORS, INC.

THE CURRENT INTERNATIONAL CRISIS—AMERICA AND THE GLOBAL ECONOMY

It is most appropriate, Senator Roth, that you and Senator Ribicoff hold hearings on your bill S. 1990 at a time when America is in the throes of crisis in terms of the global economy. The deficit in the balance of payments and in the balance of trade is at an all time historical high and the dollar has sunk to embarrassing depths against the German Mark, Japanese Yen and Swiss Franc.

President Carter and the Administration are now reacting in the crisis management fashion followed by the two preceding administrations, rushing around to solve the problem. Export expansion is again a matter of key attention and the president has given the Interagency Task Force, headed by Assistant Secretary of Commerce, Frank Weil, 60 days to give a report.

At the Southwest International Trade Conference in Houston on April 11, Reginald Jones, the Chief Executive Officer of General Electric, gave a brilliant keynote address prescribing the policies needed for a sound American international economic policy. However, neither he nor any one in the Administration has focused on the policy-making mechanism needed. There is a fundamental prerequisite for the United States to really solve its global economic challenge on a long-term and continuing basis, and that is effective re-organization of the government for international economic policy. Mr. Jones' commendable policy blueprint may never be adopted or implemented, nor is it likely that the recommendations of Assistant Secretary Weil's Interagency Task Force will become effective until there is recognition and solution of organization, as a real underlying problem. The condition calls for major surgery and not band-aid approaches.

America needs a highly coordinated international economic policy-making structure involving economic intelligence, planning, coordination and implementation. Of course, no one needs to say this to you or Senator Ribicoff, since the two of you have taken leadership roles in trying to meet the challenge on a long-term basis. Senator Ribicoff coined the phrase "eco-politics" a few years ago and stressed that the challenge to America on the world scene may not be strategic military and political threats, but rather economic. Unfortunately, too many political leaders have not been listening, and the United States seems to continue with a "Maginot Line Mentality," directing massive and effective policy-making efforts and resources toward the military challenge that might never materialize, while virtually ignoring the economic one that is impinging upon the welfare of the United States and the world economy.

I am convinced that either the United States must adopt S. 1990 and establish a new Department of International Trade and Industry, or resort to an effective alternative such as a statutory White House international economic policy council for coordination purposes.

WHAT IS WRONG WITH THE PRESENT UNITED STATES GOVERNMENT POLICYMAKING STRUCTURE FOR INTERNATIONAL ECONOMIC POLICY?

Over the past few years there has been ample and dramatic testimony by many statesmen, leaders and observers as to the ineffectiveness of our organization for international economic policy. General Maxwell Taylor, former head of the Joint Chiefs of Staff, has spoken of America's archaic lack of system for making foreign economic policy decisions and implementing that policy.

After long familiarity with the efficient and effective U.S. Government structure and system in the field of intelligence and formulation of defense and political policy, he was very surprised to find great confusion in the Executive Branch in the area of international economics. I know that you are well aware of the laments of your fellow Senators, Adali Stevenson and Lloyd Bentsen about this field. Treasury Assistant Secretary Fred Bergsten, when he was at the Brookings Institution, deplored the situation as "scandalous." Paul Volcker, former Under Secretary of the Treasury, has decried the lack of sound structure and professional process for decision-making in the foreign economic field.

Recently, Chairman Daniel Minchew, of the International Trade Commission, has spoken repeatedly about the erratic state of confusion in the U.S. Government in terms of international economic policy-making. There is no lack of critics from both parties, in the Congress, and formerly in the Executive Branch who testify to the problem. Yet the organization and operations of the Executive Branch and its coordination with Congress in the foreign economic policy area have not adapted in any meaningful degree to the needs of the times in the era of "eco-politics." Whether in organization structure, intelligence, planning, policy-making mechanism or implementation, U.S. foreign economic policy-making is handled more like the primitive process justifiable in a Less Developed Country than in keeping with the world's leading economic power, while strategic military and political policy is organized and operated in a most sophisticated manner.

Fragmentation, confusion and conflict is the rule. On given issues, the State, Treasury, and Commerce Departments and others involved from time to time, battle like rival fiefdoms for departmental interests and perspectives over the national interest. Depending on who is the cabinet secretary most in favor with an incumbent president, a policy-decision may tip that way. The Council on International Economic Policy was a commendable move in a proper direction to solve this chaotic situation, but neither Presidents Nixon nor Ford gave it the real authority it needed. President Carter then proceeded to liquidate this coordinating entity.

Of course, there are "nay-sayers" and "status quo'ers" when it comes to proposals for change. One argument is that a new Department or Agency in the White House would just increase the bureaucracy and add to the government's size. That of course is by no means necessary, and in fact, reorganization could well reduce the size of the government through effective and efficient organizational mechanisms and cut out the need for duplicating and overlapping.

Another argument against change is that organization really does not matter since it won't and can't guarantee sound policies and programs. It is of course valid to say that structure and mechanisms can't guarantee good results, but I would put it another way—and say that bad organization and disarray like the present situation makes it almost impossible to have sound policies and programs.

Finally, there are some parochial and vested interests who think it better to allow the Executive Branch to bungle along just so the government does not come up with well-thought out policies which might harm them. Considering my own business, it might be financially better to favor continuance of the disorganization since businessmen have greater need for our services just to cope with the government process. However, this continuation of ineffective international policy-making will not help America nor the American people, and that is what all of us should be concerned about.

We have counted over 70 separate bureaus and agencies in the federal government involved in some significant way with international economic policy-making. Many are well-meaning, and see the world in terms of their agency or departmental interests, and perspectives, and not just the American national interest. This is quite human and understandable rather than venal, and their fight for territorial positions in the policy-making struggle is clearly to be expected. When I talk with international business executives around the country, so often they ask why does the government hinder us in our efforts to export and do international business? I often reply to them that they should not assume a rational government policy toward international trade, but realize they are facing policies formulated by a bewildering array of different government bodies which act oftentimes in opposition to one another and that there is no one to really pull it all together and present a common position. It is like "Catch 22" where they are exhorted to expend every effort to export, but then are faced with governmental restraints and hindrances one after the other.

Let me just tell you a personal experience when I spent several months in 1968 as a consultant to the Commerce Department on a national export strategy program. It was the most disappointing and discouraging experience of my life. We developed policy recommendations for a long-term program for American aircraft exports with great cooperation from the aircraft manufacturers. When our export came up for implementation just about every recommendation was knocked down because of political and bureaucratic rivalries involving other departments. To my horror, I found that the key decision factor was often bureaucratic interdepartmental politics—not what was good for aircraft exports and for America.

SOME CASES OF POLICY-MAKING PROBLEMS

1. Policy-makers lack of awareness of global economic realities multinational production-sourcing and comparative foreign government aid to business

Much of the current attention and talk still is in terms of U.S. export expansion by exhortation. Little attention at top policy-making levels in some departments is given the phenomenon of the 1970's of multinational production sourcing around the world. The issue for many American businesses is not whether or how to export from the U.S. but whether to export from the U.S. or other foreign production sites, depending upon relative cost advantages. The multinationalization of production and tra[illegible]s not sufficiently imbued in policy-making considerations so that some departm[illegible]nts do not examine the problem of increased American exports in terms of what is economically feasible.

Even more serious is the failure to recognize that other nations have much more helpful policies toward their exporters and international business than does the U.S. Thus, a penalty on American business to restrain trade with other nations for human rights, or other laudable goals, may just turn business over to competitor nations. As an adjunct professor at Georgeown School of Foreign Service, teaching multinational business, I can tell you that there is a real need to get more realism in international economic policy-making by the government, and a new international trade entity might do it.

2. Lack of qualifications and continuity in policymaking officials

Allied with the question of global economic relations are two facts: First many appointees in the key departments lack significant experience in the complex world of international business. Second, the turnover in key appointees would make any semblance of a continuing meaningful policy almost impossible. Take the Commerce Department where the tenure of the assistant secretary responsible for international trade has averaged about a year over the past decade. And the shifting about of offices and appointees under the assistant secretary has been like a game of musical chairs at an Alice in Wonderland tea party.

A department or agency exclusively devoted to international trade might help solve this problem.

3. Economic and market intelligence

This type of data is still scattered throughout the government departments and agencies so that a given businessman would have to be aware that he may have to go to many different departments to get the data he needs. Back in 1958, I did a major study while with Alcoa, concerning investment in India. At that time I was impressed with what was available in the government But I had to go from department to department to put together the study. Some twenty years later, that is still pretty much true from what I hear from American businessmen seeking to increase their exports and foreign business—a new international trade department or agency could centralize that.

4. Taxation of foreign source income

This is a real football, with a serious lack of coordination in the Executive Branch. Treasury periodically comes up with proposals to raise revenues and seeks to put through policies in direct conflict with the international goals of other departments and agencies. Take, for example export expansion, at the present time, where Treasury wants to unilaterally eliminate the DISC export incentive without regard to what competing nations are doing. And at a time when our trade deficit is at an all time high, we hope, and jobs are badly needed. It flies in the face of all common reason.

The Treasury wants to tax the foreign national subsidiaries of American business currently, regardless of the impact upon the ability of American corporations to compete in foreign markets, even though no other nation in the world taxes its foreign subsidiaries currently. An amazing "Boo-Boo" which treasury is trying to repair thanks to Senator Ribicoff, was the phase-down of tax exclusions for American businessmen overseas, a direct gift of jobs and business to foreign competition.

When I asked an Assistant Secretary of State about tax positions, he said that taxation is not State's preserve, even though they favor more exports and sound strategy for foreign direct investment. State does not always express its views to Treasury or Congress since tax is a "revenue matter" not an "international matter."

5. Antitrust policies toward exports and international business

This has been the monopoly of the Justice Department which has zealously tried to impose the perspectives of the 1890 Sherman Act domestic economy in a highly competitive global economy of the 1970's. No other nation imposes its antitrust laws on an extraterritorial basis but that has not deferred the trust-busters.

To expand exports the Commerce and State Departments worked very hard on different occasions starting with Commerce Secretary Luther Hodges to get the Webb-Pomerene Act export combination revised to expand exports and help American business, especially small business, compete with foreign business.

I chaired a U.S. Chamber of Commerce Antitrust Task Force which was privileged to have former Assistant Attorney General for Antitrust, Judge Lee Loevinger, as a member. Our report recommending major liberalization of the Webb-Pomerene Act was effectively blocked and opposed by the Justice Department, regardless of the interests of the Commerce and State Departments, and the American Chamber of Commerce.

Another instance occurred when imports were a severe problem for American policy and the Justice Department brought a major antitrust suit against Westinghouse alleging the American company had restrained Mitsubishi from importing generators into the U.S. Since the rest of the Administration was very concerned about a rising tide of Japanese imports, I asked the assistant attorney general why it was done and he replied that it was just a matter of enforcing the Antitrust Laws, and there was no need to coordinate with any other departments on American Trade Policy.

Maybe a new international trade department or agency could make Justice a part of the team in international trade policy.

6. Export expansion

The major reason that this has never gotten off the ground in many years, and why it won't happen in 1978 is because not a single Executive Branch coordinator has overall authority. I have great sympathy for Commerce Assistant Secretary Weil who now is chairing the Carter-authorized Interagency Group.

Historically, the National Export Expansion Coordinator has been an official of the Commerce Department who was not listened to by other departments. Just ask Dan Goldy who had that role.

The so-called President's Export Council is actually lodged in the Commerce Department and its recommendations need not be listened to by any of the other departments of government, and usually have not been. Just ask Fletcher Byrom, Chairman of Koppers Company, who has chaired that Council. It is the classic case of a very vital policy being merely the instrument of one department and not of the United States Government as a whole, and therefore impotent.

A new international trade department would solve some of the problems, but it might take a White House agency to really coordinate all departments involved.

7. Export-Import Bank

This matter of export credits has been booted about for many years in Washington. The internecine warfare is extreme. It is going on again with EximBank and Commerce working for major increase in credits to make American business more competitive, while the Council on Environmental Quality wants environmental standards to be applied to exports overseas regardless of what competing nations are doing.

8. The multilateral trade negotiations

For American business the handling of preparation for these negotiations has been a mishmash of conflicting and overlapping jurisdictions. Major hearings and inquiries have been held in the past couple years by the Commerce Department, International Trade Commission, the President's Special Trade Representative, and the Labor Department with resultant overlapping, gaps, and mixup.

9. The commercial attache system

Ever since the early 1930's when the President gave the State Department authority in this area, taking it from the Commerce Department, there has been interdepartmental warfare about the system. In all instances, the battles have been won by the State Department which continues to run the commercial attache system as part o fthe diplomatic service. Many businessmen feel that the United States would do well to follow the example of a country like Canada with a professional career group of commercial attaches, who really know how to work closely with their own national business interests, and develop a career dedication and lifetime experience in international trade.

Maybe a new international trade department could end the bureaucratic strife and field an American trade corps that would work for the country more effectively.

10. East-West trade

This is a real "Catch 22" situation with parts of the Commerce Department and other departments encouraging American business to sell more by exporting to the Communist world, and other parts of the Commerce Department and the Defense Department and other agencies battling against it. The conflicting and overlapping boards and councils involving East-West trade, some of which rarely meet, are really baffling to the businessman.

11. Import relief

Many American workers and businessmen and communities have legitimate complaints about unfair competition, but their efforts to get relief involve very complex involvement with a variety of departments and agencies.

A new international trade department or agency might serve as a shield against unfair competition, and offer relief to those injured by imports, as well as being a sword to aggressively expand American exports.

12. Other cases

There are many, many examples which could be recounted, but for want of time I will not continue, though I would ask leave to add more specifics at a later time in these hearings.

HOW AMERICA COMPARES WITH COMPETITIVE NATIONS ORGANIZATION FOR INTERNATIONAL ECONOMIC POLICY

For nearly 10 years I had the privilege of observing at close hand the organization of governments of many foreign nations in international economic policy. This occurred while I was an executive of a consulting organization which organized conferences for senior American, European and Japanese executives with governments of many countries throughout the world. There was much research in preparation for these week-long conferences in foreign capitals, and it gave me a real chance to observe the policy-making mechanisms as well as the policies of these governments.

Specifically, I was the organizer of the conferences with the governments of Japan, Canada and Australia, and part of the organizing group in conferences with the Soviet Union, West Germany, France, Mexico, Brazil, Argentina, and other countries.

This is not the place for a detailed analytical study of each governmental system, but I can assure you that such countries as Japan, Germany, Canada and France have much more effective international economic policy-making structures and mechanisms than does the United States. These countries treat the international economic sphere as of prime significance to their respective nations and do not leave the handling of foreign economic policy to a multiplicity of competing domestic policy-dominated departments. That is not to say that all these countries are paragons of efficiency in their organization and several countries have considerable inefficiencies in organization, but, among our leading competitor nations, the United States is at the bottom in terms of effective organizational structure. By contrast, I would say that the United States is at the top in organization for international political and military strategic policy-making.

HOW SHOULD THE EXECUTIVE BRANCH BE RE-ORGANIZED FOR AN EFFECTIVE INTERNATIONAL ECONOMIC POLICY-MAKING SYSTEM

First, there is the proposal that you, Senator Roth, and Senator Ribicoff have made to establish a new Department of International Trade and Industry, which is a dramatic departure from our past, but perhaps required to meet the equally dramatic crises that America is stumbling into repeatedly in the international economic field.

Based on a study of many proposals the only other sound alternative that I can see is to establish in the White House, by Congressional statutory authority, an international economic policy coordinating council with much greater power and authority and resources than the relatively impotent Council for International Economic Policy that existed under President Nixon and President Ford.

Whatever alternative is chosen, there should be certain fundamental elements that must be present in order to get sound results. They are:

1. *An international economic and market intelligence system.*—There is need for a centralized staff exclusively devoted to overt intelligence to collect, analyze and distribute information about the international economic scene, the situation in particular countries, comparative analyses of industries, product sectors and foreign government policies to be made available to the Executive Branch, the Congress, businesses, and the interested public.

2. *Forecasting.*—There must be a type of long-range forecasting staff which provides indications to the government and the private sector about world developments impacting American exports, business, and the economy. This clearly does not imply any sort of regulatory body which would control the private sector in any way.

3. *An advocate for America's international position.*—A vital need is an entity in the federal government which acts as a strong voice for America's external position in the global economy. Today there is none in the policymaking mechanism. The traditional departments and agencies such as Treasury, Commerce and Labor are heavily weighted toward domestic considerations and quite properly so, and the international voice is not heard at the top. It is muted in each agency by the domestic aspect of a given situation. Even the State Department does not speak with a clear voice in this area since State's considerations are often controlled by political relations with foreign governments and the necessity for good military and political rapport as compared with the fundamental economic interests of American business, labor and agriculture.

4. *Implementation and operational aspects of foreign economic policy.*—This is an exceedingly important aspect since it involves the middle and lower level of government officialdom, which has tremendous impact upon American international economic policy. Even though the Cabinet heads and agency officials at the top may get together on certain points, there may not be such controlling guidance down below. A central policy-making group belonging to a new department or a new White House agency could give this vertical guidance from top to bottom. More important, it could supervise a truly professional career American trade corps which would give absolute and prime attention to helping American business, agriculture and labor be successful in foreign matters.

THE SOLUTION

I presently believe that the situation calls for a new Department of International Trade and Industry as proposed in your bill S. 1990, plus a White House International Economic Policy Council. It does not strike me as an "either-or" choice.

The International Trade Department can supply the leadership, career staff resources, policy recommendations, and policy executing capability. Most important the Trade Department can be the advocate in the federal government for the international perspective of what is good for America in the global economy.

Then, at the White House level there should be a small International Economic Policy Council staff, analogous to the National Security Council in the military and political field, which coordinates all international economic policy inputs from the Trade Department, and views from State, Commerce, and others involved. Just as the NSC furnishes the President a staff coordinating function for the Defense and State Departments and others.

Finally, the White House does need an Economic Policy Board to evaluate all the international and domestic policy inputs and decide policies overall in the American national interest.

Under both the Ford and Carter Administrations the philosophy has been that most economic policy decisions have both domestic and international aspects, which is a truism.

However, the international economic policy factors get muted since the policy-makers and staff for domestic and international are the same persons controlled too often by domestic aspects. There is no advocate for the international policy and no rational coordination and presentation of that vital component.

Thus, it is a matter of when and by whom the international policy aspects are considered at the White House level.

CONCLUSION

Let me close, Senator Roth, by commending you and Senator Ribicoff for your proposal in this extremely significant area. You should continue to educate and inform our policy-makers in the Congress, the Administration, and the nation-at-large including all the people, of the vital importance to America's economic welfare and stability of reorganizing the Executive Branch for international economic policy.

Many dedicated people in the White House, the Administration, the Civil Service, the Congress, and the business, labor, agricultural, and consumer communities, are striving to formulate effective international economic policies to meet America's global economic challenge, but they cannot achieve it without the essential prerequisite—effective re-organization of the government for international economic policy.

Senator Roth. At this time I am very pleased to welcome a panel of overseas businessmen, led by Mr. A. L. Burridge, who is chairman of the Asia-Pacific Council, American Chambers of Commerce.

The Asia-Pacific Council has long advocated rationalizing the international economic policymaking of apparatus of American Government, to help American business compete more aggressively overseas.

Rather than make a long introduction myself, I would ask that each of the members on the panel identify themselves and their affiliation.

TESTIMONY OF A. LEWIS BURRIDGE, CHAIRMAN, ASIA-PACIFIC COUNCIL OF AMERICAN CHAMBERS OF COMMERCE; ACCOMPANIED BY ROBERT A. PERKINS, VICE PRESIDENT AND DIRECTOR, FAR EAST CHRYSLER, INTERNATIONAL, JAPAN; THOMAS M. HAGUE, AREA REPRESENTATIVE, BORG-WARNER K.K., JAPAN; S. WOODROW SPONAUGLE, MANAGING DIRECTOR, SOLOMON MINING AND EXPLORATION COMPANY, BANGKOK; RAYMUND A. KATHE, VICE CHAIRMAN, APCAC; WILLIAM H. SINGLETON, CHAIRMAN, COUNCIL OF AMERICAN CHAMBERS OF COMMERCE, EUROPE AND MEDITERRANEAN; AND PATRICK N. HUGHSON, ASSOCIATION OF AMERICAN CHAMBERS OF COMMERCE, LATIN AMERICA

Mr. Burridge. I am A. Lewis Burridge, chairman of the Asia-Pacific Council of American Chambers of Commerce.

Mr. Singleton. I am William H. Singleton, chairman of the American Chambers of Commerce of Europe and the Mediterranean and the president of the Chamber of Commerce of Spain.

Mr. HUGHSON. I am Patrick Hughson. I am general manager of the Alcoa Exploration Co. in the Dominican Republic and am president of the American Chambers of Commerce in Latin America.

Mr. PERKINS. I am Robert A. Perkins, vice chairman of the Asia-Pacific Council of American Chambers of Commerce. I am also NSA director of Mitsubishi Motors Corp. of Japan.

Mr. SPONAUGLE. I am Woody Sponaugle, managing director of the Solomon Mining & Exploration Co. in Bangkok. I am also vice chairman of the Asia-Pacific Council of American Chambers of Commerce and chairman-elect for next year.

Senator ROTH. I would like to welcome each one of you here and appreciate your taking the time. I know that your schedule is busy. But I think it would be very helpful to have your testimony as to what can be done to promote the export of American-made products.

I wonder if we could proceed as you would like. I would be very much interested in hearing what are the barriers to American business in the countries in which you operate, what you believe a strong department of international trade could do to both put pressure on the removal of some of these problems and barriers, and more importantly, perhaps promote and assist in the sale of American-made products.

Mr. BURRIDGE. Mr. Chairman, I might lead off. One statement I will make is that we feel that there is a crisis in American economic relations which isn't being recognized by our Government, and not even recognized by the Americans involved, many of the Americans involved in foreign trade and investment, directly or indirectly.

We don't think that this can possibly be solved until there is a real economic mobilization in the United States. As we look on this, and we do represent here decades and decades of foreign service, if you want to call it that, in the economic field from all parts of the world; we are representing 300,000 or 400,000 businessmen that we consider to be in the frontlines of what is really an economic battle.

It is disconcerting to us that the representations we have made both locally in the various countries in which we are operating and the representati we have made in Washington since the late sixties and very strongly on this very subject in 1970, has gone unrecognized.

We were concerned about a petroleum crisis 4 or 5 years before there was one. We are concerned about other resource crises that loom ahead in the next 5 to 25 years.

But mostly we are concerned because our Government is not constructed to contend with these things, not only not to study them but not to implement a decision once a study indicated a course of action.

Therefore, we are addressing ourselves to this problem by trying to put a name to it. What we are saying is the United States must have an economic mobilization just as surely as it had to have a military mobilization in 1941. We don't see a bit of difference. We think as we mobilized for our military challenges in 1941, we certainly did not in the United States concern ourselves with the bureaucratic impediments to such a mobilization.

We went ahead and reorganized Government at that time to conduct that war. We went ahead to give support to the men we put in the trenches on the frontline of that battle, much superior to the support that was given to our opponents. That is why we won it.

Anything that was an impediment as soon as it surfaced, I believe we took care of it. The whole direction of Government in that battle was to win the battle, and to identify anything that would be of positive support and maximize those things.

If we can agree that we are fighting an economic battle of the same proportions, in fact, perhaps much greater proportions in the long-term security and economic interest of the whole world—because there is much greater interdependence now than there was in 1941. The world is no longer the divided political world in the sense it was in 1941. It is very much a world based on its economic situations and economic future.

The most rampant dictators in the world are no longer trying to sell politics. They realize their future depends upon their economic viability.

Why we can't recognize that is hard to see. They are more concerned about our own future than we are because even the smallest country in the world realizes that a weak United States in economic terms is the end of them, too. Many of them are concerned about the weakness of the U.S. dollar, more so than we are here.

Many are more concerned about the fact that we are losing market share than we are. Many of them are more concerned about the fact that we have a weakness now surfacing itself in our technological development. All of these things are going to impinge on the whole world.

It seems to me if we are going to mobilize ourselves economically in recognition of this problem, we have to go right to the Government first, because all of us who have been fighting in these trenches have been wondering for years where the generals are. We are sitting out there and often find there are larger attacks from the rear than there are from the front.

We are diverted from the basic battle quite often to return to our own Government to find out what is going on back here as the rockets and shells keep hitting us from behind the line even more strongly than from the front. When we come back, we can't find any unanimity of purpose; in fact, we can't find a purpose.

Usually it is domestic implications that have created this impediment to international competitive ability of our corporations.

We do know and can prove quite conclusively that we do have—all of our international operations have a favorable impact in the United States, impact on jobs, impact on development. But we don't find that we are structuring to take advantage of this impact. In fact, we find it obfuscated in the departments of Government. This is not to say that there are no good people in Government and there are no good intentions in Government, whether it is executive or legislative.

There are plenty of them. But we don't have the structure. This is why APCAC itself is so strongly in favor of S. 1990. Just as in the case of the energy crisis, which was finally recognized; it didn't take the Government very long to decide it needed a new structure of government to handle the new energy problem.

We think in the case of our economic future we need a new structure of Government to handle the international economic challenge. Basically, that is what our testimony addresses itself to.

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We address ourselves also to the question of MITI versus DITI. We are not asking for a regulatory body. We are not asking for the scope of activity that the Japanese have instituted in the form of their Ministry of International Trade and Industry. What we are asking, rather, is a body which can coordinate policy, a fairly one-stop shopping place that directs itself to the international challenges on a long-term, coordinated basis. That does not exist now. There is no body in the United States that sits down and talks and thinks progressively and aggressively about our own long-range economic future.

It is dispersed through all the departments of Government almost, some 200 commissions, departments, councils, divisions and what have you, that work on this, but also with a secondary priority to the other things they are thinking about.

As they get together in their interagency committees, it seems that what sometimes starts out as progressive constructive suggestions, is soon boiled down to the usual bureaucratic, less constructive recommendations to higher offices.

These offices themselves look on these with lower priorities. Usually in case after case, it has been the political or domestic consideration which overrules what should have been a very strong economic decision in economic policy and in economic operational decision.

We are very, very happy, very pleased to have the opportunity to appear before you. We think in our formal testimony we have explained how we would view the problem as it exists and how we feel the passage of S. 1990 would impact on this problem. We feel that the current negotiations the United States is involved in and will be involved in, not only the bilateral negotiations which in a way have got us in a bit of a jam—we are sympathetic with the positions our Government took in the early, postwar days to reconstruct the rest of the world. We are still for free trade in a reasonably open economy. But we have entered into a phase where we are being taken advantage of and advantaged way beyond our ability to continue to afford this.

Even in the case of Japan in current discussion with Japan you will be told by certain Japanese that it is a weak economy that can't afford partity with the United States as they count up their $6 billion trade surplus so far this year, with something between $25 and $40 billion facing them in the course of the year.

I don't even have to look at the Arab part of the world or the EEC to be frightened by this.

The other thing is it is not only the bilateral situation with strong nations such as Japan, Germany, and others, but it is our fight for a third country markets where we are also being disadvantaged because our competitors from the strong countries and even from weak countries, are operating under a much more advantageous basis than we are in terms of the things we discussed.

If they don't have tax support, at least they don't have tax impediments. If they don't have regulatory support, at least they don't have regulatory impediments. Each of these nations realize their businessmen in the field are the new soldiers of today, and they have to be supported in the same way as their offensive forces were supported during the times when our military functions were paramount.

That is the climate as I see it. We have to have a recognition of this. The time has long passed for action.

[The prepared statement of Mr. Burridge follows:]

STATEMENT
on
DEPARTMENT OF INTERNATIONAL TRADE AND INVESTMENT (DITI)
by
A. LEWIS BURRIDGE
for the
ASIA-PACIFIC COUNCIL OF AMERICAN CHAMBERS OF COMMERCE
before the
SENATE GOVERNMENTAL AFFAIRS COMMITTEE
May 1, 1978

I am A. Lewis Burridge, President of Sterling Asia and Chairman of the Asia-Pacific Council of American Chambers of Commerce (APCAC) whom I represent here today. I very much appreciate your invitation to appear before you representing some 6,000 American businessmen living and operating in the Asia-Pacific region.

APCAC's membership consists of twelve American chambers of commerce in eleven countries. And it represents the bulk of U.S. private investment and trade in the region.

Accompanying me are five American businessmen with extensive business experience abroad. They are Mr. Raymund A. Kathe, Vice Chairman of APCAC and Senior Vice President of Citibank in Tokyo; Mr. Robert A. Perkins, Vice Chairman of APCAC and Vice President and Director, Far East for Chrysler International Services in Tokyo; Mr. S. Woodrow Sponaugle, Chairman-elect of APCAC and Managing Director of Solomon Exploration and Mining Company in Bangkok and Mr. Thomas M. Hague, President of AmCham Japan and Representative Director of Borg-Warner K.K. in Tokyo. In addition, we are pleased to have with us Mr. William Singleton, Chairman of our counterpart organization in Europe -- the Council of American Chambers of Commerce--Europe and Mediterranean (EuroMed). Mr. Singleton is owner of William H. Singleton Consulting Engineers based in Barcelona, Spain.

We come before you today to enthusiastically support S. 1990, a bill to establish a Department of International Trade and Investment (DITI).

Like many Americans, American businessmen abroad are deeply concerned with the crisis the United States faces in the conduct of its international economic policy. We suggest the immediate mobilization of all available U.S. resources to forestall the loss of billions of dollars in trade to our better organized, less restricted and better financed competition. The urgency of this task of mobilization is underscored by the staggering deficit in our 1977 balance of trade and the precipitate erosion of the value of the U.S. dollar.

From our overseas vantage point, we are frightened by what appears to be disarray, confusion, contradiction and softness of purpose in U.S. economic policy. The United States is rich in natural resources, technology and commercial know-how. But without an effective, coordinated foreign trade and investment policy and its concomitant positive impact upon exports and upon improving our balance of payments, we will not be competitive internationally and we cannot continue to prosper. Those of us active in international trade have defined the following major defects in U.S. government organization.

> First, different from our trading partners, we lack in the U.S. a coordinating mechanism to focus the entire resources of our government on international trade problems. Uncoordinated, independent initiatives from a multitude of agencies, each with some interest in international commerce, result in confused programs with limited effectiveness. Vested and conflicts of interests preclude consistent policy and aggressive leadership toward committed national trade and investment goals.
>
> Second, there is no policy formulating mechanism with authority in the government to establish international economic objectives and to evaluate the impact of existing and proposed legislation on these objectives.

The impressive array of recent U.S. legislation and regulations reducing the ability of U.S. firms to compete abroad is clear evidence of the insufficient weight given to international economic considerations in the U.S. policy making process. Although individual members of the Treasury, State and Commerce Departments and the President's Special Trade Representative have expressed serious reservations about many of these new laws and regulations, there has been no single spokesman for the international economic interests of the United States powerful enough to have a significant impact on the legislative and policy making processes. The appointment of a cabinet member responsible solely for international economic affairs would go a long way toward filling this vacuum.

American businessmen in Asia, buffeted by overwhelming competition, have long been leading supporters of the creation of a single cabinet level department charged with the development and implementation of U.S. economic policy abroad. APCAC first advocated the formation of a Department of International Trade and Investment in the communique of its meeting held in

October 1970. Since that time, APCAC has consistently supported the creation of such a department at bi-annual meetings -- most recently in Singapore this past February. APCAC testified in July of 1975 before the Subcommittee on International Finance of the Senate Committee on Banking, Housing and Urban Affairs supporting the enactment of legislation to permit the then Council on International Economic Policy (CIEP) to function properly as the coordinator of the sometimes conflicting interests of foreign economic, foreign political, security and monetary policies and domestic economic policies.

The international competitive position of the United States has deteriorated considerably since APCAC originally proposed the creation of DITI in 1970. One of the principal causes for this deterioration has been the absence of a consistent U.S. international economic policy and of a single agency charged with coordinating the implementation of all aspects of such a policy.

Perhaps the principal reason why the United States has not developed an overall international economic policy since World War II is that it has been able to afford not to do so. The technological superiority of U.S. industry over the industries of war-ravaged Europe and Japan and the role of the U.S. dollar as the dominant means of exchange for world trade and investment has given the U.S. the luxury of pursuing a number of conflicting objectives without much consideration to its own economic advantage. This is a luxury which we can no longer afford.

The development of foreign industries to levels of technological sophistication and productivity at least equal to our own and the greatly increased dependence of the U.S. economy on imported petroleum and other raw materials from abroad now make it imperative that the United States seek to maximize its economic advantage in dealings with other nations. The U.S. government, U.S. business itself and the public at large have been slow to appreciate this reality -- largely because there has been no single organization responsible for coordinating the international economic position of the U.S. DITI would fill this role.

Currently, U.S. businessmen are hamstrung in their efforts to increase sales abroad by the conflicting policies being pursued by the U.S. government. On the one hand the Commerce, State and Agriculture Departments are devoting considerable resources to promoting U.S. exports while on the other, the White House and the Treasury Department are supporting tax measures which will make the foreign operations of U.S. companies considerably less competitive.

If the U.S. government is really serious about increasing exports and improving the U.S. balance of payments, it must "get its act together." DITI would be a logical place for this process to begin.

In the case of Japan, most of the actions taken by the U.S. government to date to restrict the flow of Japanese exports into the U.S. on the one hand or to open up the Japanese market to U.S. exports on the other have been taken in isolation. Although the Japanese government generally appreciates that Japanese access to the U.S. market will be severely restricted if a significant reduction in its balance of payments surplus does not occur with the U.S. in the near future, a much more direct linkage between the two types of action will be necessary to achieve concrete results.

We need a spokesman who commands authority and who will say that if you want to sell your Hondas in California, Americans have to be able to sell their computers in Tokyo. The Secretary of DITI and his staff would be the logical people to communicate this type of policy linkage. In this regard, we have attached four papers covering four different industry groups where Japanese restrict foreign competition rigorously.

Americans in business overseas support the proposed DITI legislation, but we take pains to distinguish a DITI from the Ministry of International Trade and Industry of Japan. By no means do we favor the establishment of a MITI in the United States even if that were possible.

The major differences between the DITI proposal and Japan's MITI are these:

> First, DITI will be limited by statute to matters of international trade and investment. MITI as an agency came into being in 1952 and is empowered to act over a wide range of industrial and commercial activities in Japan, predominantly domestic in nature. The domestic and international commercial activities of Japan are intricately interwoven. As the regulator of both domestic and international commerce and industry, MITI's purview is much broader than DITI's should ever be.
>
> Second, much of MITI's power comes through its exercise of "administrative guidance" manifested through informal directions, requests and warnings. From this "guidance," administrative measures are instituted. Blatant disregard of this "guidance" usually brings quick and certain reprisal. Such administrative power is inconceivable under the American structure of checks and balances.

Though an American MITI is not a targeted objective, the capability to compete effectively with Japan and other countries, without undue restriction and regulation and without overburdening taxes on American businessmen, is an objective.

For instance, American companies are restrained from entering into American consortia such as those formed by Japanese in bidding for billion dollar projects in oil-producing countries or from joining foreign industry associations in Japan or ASEAN nations. A DITI could study such restraints and perhaps become a strong voice within the Executive for exceptions.

The Office of the Special Trade Representative was created in response to past failures in trade negotiations where U.S. representatives were subject to contradictory influences from the proliferated agencies and departments. The creation of the Office of the Special Trade Representative was a positive step forward. But, a larger staff, funding and a clearer and broader mandate should be added so that as Secretary of the Department of International Trade and Investment, the cabinet officer and the department will be the focal point around which other agencies and bureaus, concerned with foreign trade and investment, can gather. The DITI Secretary would coordinate, consolidate and analyze facts and make recommendations to the President for corrective action.

An important preliminary step in the development of intelligent policy actions is to obtain a relatively unbiased analysis of the facts with respect to the impact of international trade and investment on the U.S. economy. Many recent studies of this subject have been flawed by the economic biases of their authors. The necessary analysis simply has not been made. The Roth-Ribicoff bill would give DITI the mandate and the funding to carry out the research and analysis required.

The proposed incorporation of Eximbank, the Overseas Private Investment Corporation and other investment-trade functions of the departments of State, Treasury and Commerce will further facilitate DITI's efficacy.

A major impediment to improving the performance of U.S. business abroad is a widespread perception among American businessmen that the U.S. government is indifferent to their efforts. This perception results in less effective communication between businessmen and government representatives in Washington and in the field; less effective use by businessmen of the substantial personnel and other resources committed by the U.S. government to expanding U.S. exports abroad; and a lack of incentive for U.S. businessmen to take the broader national interest of the United States into account in their daily work.

The implementation of U.S. economic policy overseas has been largely left to the State Department. Here again, U.S. economic interests have been given short shrift. The main concern of foreign service officers is to enhance the political relationship between the U.S. and the country to which they are posted.

As a practical matter, officers representing various agencies and departments in U.S. embassies abroad are charged mostly with the collection and collation of commercial data from the country of their assignment and reporting these data to Washington. Often, these reports go through separate channels and are rarely analyzed or brought to bear upon overall economic policy direction. The creation of a DITI should change such fragmented reporting.

In addition, an effective advisory committee, composed in part of American business leaders, could provide DITI with necessary access to U.S. corporate thinking on issues of foreign trade and investment. Such a mechanism would also increase confidence in the American business community that the U.S. government can be responsive to the needs of business.

In sum, the enactment of S.1990 is seen as vital to American commercial interests in the Asia-Pacific region. Without it, and the concerted force it will bring to our commerce abroad,the relative share of American trade and investment in this region will continue to decline.

Attachment A

AUTOMOBILES

Automotive exports of U.S. made cars and trucks to Japan would benefit from the proposed organizational realignment of U.S. Government departments and agencies as described by Senate Bill 1990.

Currently, a number of U.S. Government entities deal with the Japan's Ministry of International Trade and Industry on the question of U.S. Automotive Exports to Japan. These departments include; the Department of State, Department of Commerce, Office of Special Trade Representative, Department of Transportation and Department of Treasury. Some success has been achieved by the Office of the Special Trade Representative by playing a role in securing the elimination of the 6.4% duty on vehicles.

However very little progress has been made on the serious problem of non tariff trade barriers. By means of non tariff trade barriers, including; individualistic administrative interpretations by Japanese officials, the requirement for massive documentation for certification of vehicles, and unusual licensing practices, the Japanese Government is able to place sizeable road blocks in the path of U.S. automotive exports.

U.S. Government agencies have tried with limited success to date to remove these obstacles, however the lack of a cohesive and coordinated policy and approach has resulted in continuation of an effective barrier to volume exports of U.S. vehicles.

An American Department of International Trade and Investment would be most helpful to U.S. exporters in the vehicle industry.

Non Tariff Import Barriers

There are three specific areas where further consideration by the Japanese Government would assist in improving sales of imported cars from the U.S. in Japan.

1. Modifications to meet Japanese standards and regulations discrepancies exist between the actual written regulations and the interpretation of the regulations specifically at the Land Offices. Uniform interpretation of each standard and regulation should be provided officials and importers.

2. Vehicle Certification Procedures

   Japan requires submission of massive documentation in addition to the presentation of each vehicle type and variation thereof for vehicle inspection in addition to the witnessed testing requirements. Detailed descriptions of all test facilities are required as well. We suggest that the amount of documentation be reduced, the manufacturers certification for compliance be accepted and that the manufacturers documentation and in-house test data in lieu of witnessed tests be accepted.

3. Vehicle Licensing

   To obtain license for imported vehicles in Japan the individual vehicle must be presented to the Land Office for inspection to insure compliance with requirements. We suggest importers be given vehicle designation approval without an increase in the documentation requirements for vehicle certification.

Attachment B

BANKING

In the post war era foreign banks were only welcomed in Japan to the extent that they and foreign capital were badly needed.

In these past years foreign banks have been well treated guests and "Japan Inc." has consciously protected foreign banks from credit risk, albeit in Japan's self interest to assure itself of a high credit standing and lowest possible interest cost.

We believe that era has come to an end and with Japan increasingly becoming a creditor nation and the development of an inversion of the yen/dollar interest rate structure, foreign banks must ask its host country Quo vadis ?

If foreign banks are no longer needed in the past context Japan must decide whether they should pack up and go home or provide them with a useful economic role to perform.

Most foreign bankers categorize their problem in Japan as being a lack of access to the "money market". Unfortunately, as we know, Japan does not in fact have a money market to which we could have access. Instead, money in Japan is almost fully managed and only marginally affected by market forces.

Accordingly, not only is there urgency in developing a dialogue between the foreign banking community and MOF/BOJ as to the future, but equally as important, we feel that we can assist Japan's maturing economy in developing a true international money market, which will enable Tokyo to stand alongside of London and New York as a financial center.

The following is a list of regulations or limitations that appear to be applied unequally against foreign banks in the conduct of their business in Japan:

1) Limited and unequal application of $/¥ swap quotas to different foreign banks.

2) Restricted access to call market unlike those applied to Japanese foreign banks.

3) Exclusion from *gensaki* business if any access to call or bill market is desired.

* Repurchase Agreement

Attachment B

4) Guidance to Japanese banks against provision of interbank financing to foreign banks (temporarily relaxed, but insufficient for reciprocity).

5) Selective exclusion from withholding tax on interest paid abroad granted to Japanese but not to foreign banks.

6) Prohibition on domestic branching by foreign but not by native banks.

7) Guidance against solicitation of deposits from public.

8) Not qualified as depository for receipt of tax payments.

9) Exclusion from subsidized import financing provided by BOJ special discount window and Jeximbank for stockpiling.

10) Restriction on lending dollars to American companies or joint ventures and foreign banks also not qulified to guarantee impact loans.

11) Exclusion from Japanese offshore dollar and yen loan syndicates.

12) Not qualified to fund through issue of bank debentures such as by BOJ and long term credit banks. Also not qualified for trust bank powers.

13) Not permitted to acquire shares or control of a local bank.

14) Arbitrary selection of Reuters closing rate for tax deductible funding rate.

15) Terms of impact loan agreements and maximum rates dictated by MOF/BOJ.

16) No access to Japanese bank wire transfer system.

17) Exclusion from Tokyo Clearing House and instead, enforced dependence on a city bank for that function.

18) Exercise of share ownership and directorships by Japanese banks to control banking business and exclude foreign bank competition, regardless of competitive rates offered.

19) Non-participation in Japan's import financing because of monopolistic practices to keep FX business in hands of native banks, regardless of rates offered.

20) P Notes covering loans to foreign owned and joint ventures not eligible as collateral for bill market borrowing.

Attachment B

21) Training materials and books prepared by Bankers Association for city bank's employees not available to foreign banker at any price.

22) Foreign merchant banks excluded from yen issue underwriting.

23) Escrow accounts on large export sales such as ships kept in local banks only.

24) Restricted L/C negotiations fought by local banks up to threats of forcing suspension of shipment to foreign buyers.

25) Daily ¥ rate price fixing by BOT for opening FX market at 10 a.m.

26) $1 million FX position limit for foreign banks in Tokyo forces shift to other sister offices overseas.

27) Not permitted to make loans outside of Japan except in rate cases.

These and many similar restrains are akin to "non-tariff barriers" in the field of trade. They have however been acceptable because of the special role of foreign banks in Japan, but are indicative of the areas that should be studied and changed if foreign banks are to perform a continuing role in Japan under the new conditions.

Attachment C

SEMICONDUCTORS

The U.S. semiconductor industry has been one of the most aggressive, export-minded industries, especially with regard to Japan. They have achieved spectacular results in the overseas markets. Furthermore, the United States has been the ackknowledged world leader in electronics development. Despite stiff competition from Japan and Western Europe and shifts in the manufacturing of labor-intensive electronics products to less developed countries, the U.S. has been maintaining a favorable overall balance of trade in electronics. But recently officials of some of the major semiconductor industry forsee a problem for the U.S. semiconductor industry, especially with regard to the overseas competition.

Mr. Charles E. Sporck, President of National Semiconductor Corp., the industry's third-largest producer, on March 8, 1978 stated that the U.S. Semiconductor industry will be destroyed within ten years unless the Federal Government institutes and enforces free-trade rules for Japanese-made products. He expressed his concern that monopolistic Japanese companies will be as successful in dominating the semiconductor industry as they have been in other industries.

Mr. J. Fred Bucy of Texas Instruments Incorporated stated the duty rate on U.S. integrated circuits imported into Japan averages 12%, whereas the import tariff in the U.S. is 6%. In his speech of December 8, 1977 at the Shoreham Hotel, he said, "Through diplomatic and trade relations channels, we should be pressing for the elimination of semiconductor tariffs in the upcoming GATT negotiations. But the real key is equal access to each other's markets. I'm confident that we are good enough and tough enough businessmen to match product price and quality with the Japanese -- in their markets as well as ours."

The above is also supported by Floyd Kvamme. What must be done, asserts Kvamme in his article of October 1977 in Technology, is to seek equitable treatment in the international market for semiconductors, where each company competing in a given market is competing using the same rules.

The semiconductor industry is not looking for handouts or protection. They are interested in a unified, consistent, authorative voice on international trade programs and policies. Currently the U.S. Government has the mechanism for handling dumping problems and other related matters, but the U.S. Government becomes involved after the fact. If there was a central, concentrated agency that is responsible for anticipating problems, for gathering and analyzing information, for investigating problems, and for planning program, the semiconductor industry would be able to compete more effectively in the international market.

Attachment D

AIRLINES

To what extent a nation's economy is relaying on external trade is measured by the ratio of trade value versus gross national product of the nation. This degree of economical dependerce to export in the case of the United States is only 6.3% (statistics 1977) whereas in the case of Japan this degree of dependence is 12% or double that of the United States. Great Britain and West Germany are at a higher degree exceeding 20%. As these figures speak for themselves the United States has an economically self-contained huge domestic consumer market making her not serious about seeking markets abroad to sell her products like with West Germany or Japan.

In addition, the external trade of the United States is heavily biased to foodstuff and agricultural products. Other commodities for export are products of multi-national huge enterprises like the major international petroleum companies, the big three automobile manufacturers, IBM, Boeing Aircraft Company and the like. Exports of general industries are of minor amounts and therefore it is not uncommon to find businessmen in the United States who are not familiar with such international trade terms at F.O.B. and C.I.F.

Even with American firms who engage in external trade to some extent, their major trading outlet is neighboring Canada followed by markets in the western European areas, Mexico and Central and South America. The value of American exports to Japan is 10.5 billion dollars or less than 9% of the total American exports of 120 billion dollars. In comparison, Japanese exports to the United States has once marked 30% of her gross exports and is still currently at a high percentage of some 23%.

Such an environment and a national economical reliance on external trade give grounds to the so-called "JAPAN INC.", a close association of MITI, trade houses with their octopi manufacturers under the trade house umbrella.

The United States must have a similarly enthusiastic and powerful central government agency of a cabinet level tasked with firstly, educating the general American industrial and commercial circles to open their eyes to the potentials of the overseas consumer markets, secondly, to stimulate them to patiently cultivate (as nothing in overseas trade can materialize overnight) the markets abroad by fitting themselves into the overseas market. This finally will help correct the trade and foreign exchange imbalance the United States is facing today.

Certain amount of exercising protectionism by such centralized government international trade department is necessary in this age of internationally practiced or otherwise subsidized trade practices.

Protecting and fostering industries that will compete external trade will be necessary.

International transport industry, aviation and shipping, is an extreme good example where protectionism is common throughout the globe. The aviation and steamship transportation bring in sizeable foreign exchange to the nation and should therefore not be overlooked as an export industry with high potentials.

One of main sources of foreign exchange earning power for the U.S. is the tourist business.

Attachment D

The United States has recognized, as have other countries, that a governmental promotional organization is a must to stimulate inbound tourism, earnings in foreign exchange, and to augment the cultural flow by increasing visitor presence.

The organization is the United States Travel Service which is an entity in the Department of Commerce.

Today two key Ambassadors, Japan and Britain, have recommended that its operations be closed. Serious discussion is being held in Congressional circles relating to the validity of its efforts. However, report after report have shown the success of its efforts in augmenting and developing visitor flow to the U.S. - an invisible export.

If there were a single entity promoting the U.S. economic policy the contributions of the visitor industry and to foreign exchange, balance of payments, cultural exchange could be evaluated properly in the context of U.S. objectives - not piecemeal and not necessarily related to the economic strictures posed in operating a specific Embassy on a budget.

We just do not have a thoughtful realistic international air transport policy for the United States.

Most foreign governments dedicate to their flag airlines a single powerful governmental agency often of Cabinet rank. In our government responsibility for international air transportation is diffused in numerous departments and agencies - such as CAB, DOT, FAA, Dept. Commerce, Dept. Justice, Executive, Congress - to name a few.

U.S. flag international operations are, basically, a vitally important aspect of the President's function of handling our foreign relations, subject to the responsibility of the Congress to regulate foreign commerce and to control the purse strings. We urgently need a concentration of responsibility for handling this highly important aspect of our foreign relations so that this nation's best interests can be advanced effectively.

Attitude is an important as organization. The Congress and the Executive Agencies have declared that the flag airline system is vital to the country. That conclusion should become the basic premise for all officials who take part in the affairs of international air transport industry.

Traditional U.S. policies of free enterprise and competition appropriate to the U.S. domestic environment, are not appropriate in the international arena where competition is extreme, and our competitors operate in an international system of pools and cartels which support, almost everywhere, airlines that are either government owned, government supported, or government subsidized.

Bilateral aviation agreements and international aviation decisions have had little input from the Department of Commerce. These have been left - historically - to special negotiating team of State plus CAB, DOT and minimal representation of other groups.

Attachment D

The position of the United States as a basic competitors to other nations in air transport has not been crystallized - and no government department has been available to give dynamic support to the Flag as a chief earner of foreign exchange for the U.S., as a visible representative of the U.S. in foreign countries, as a provider of regular rapid communication between the countries, as a purveyor of routine cutural exchanges.

In this context we most frequently find that an Embassy considers its main objective is to develop harmonious relationship with its host country. An Ambassador is often judged on these relationships.

We do find a desire not to create problems with the host country as trade problems are often a series of smaller issues - and when they compound to a confrontation - they are considered to be too controversial.

The daily aviation relationships reflect a need for a stronger U.S. policy supporting the Flag on a daily basis.

A DITI would, of necessity, develop strong views regarding the status of flag carriers and would have a coordinated global policy which could be provided to the Executive on an authoritative basis.

Senator ROTH. I appreciate your support for S. 1990.

I think what you say about the critical importance of this area cannot be overemphasized.

I might say to me it seems to be the most important thing a new Cabinet Department can do, is to provide a strong voice, a strong advocate in this area of promotion of American-made products and investment. We do not have that today. There is no question about it.

Perhaps before we go into questioning, I ought to ask any of the other gentlemen if they care to add any remarks or comments generally on the legislation. It would be helpful if each one of you would, again, give your names so we could have it for the record.

Mr. SINGLETON. I am William H. Singleton, chairman of the Council of American Chambers of Commerce, Europe and Mediterranean. We represent 13 chambers in the European area and African area, and something around 20,000 U.S. businesses or affiliated businesses overseas.

The European government structures vary from country to country, and the economic fortunes vary as well from the famous German success story of high exports and positive trade balance and revaluation of their currency, to those of Italy where the opposite is just exactly the case.

One can look at the Common Market and see their approach to the whole picture. International trade is being negotiated on a common basis for the Community, and why is it possible for countries with such diverse structures and economic realities to develop a common position vis-a-vis the rest of the world.

Each country recognizes the need to develop the coordinated export policy and each country puts great priority on these matters. The results of this thinking is the EEC Common Market program for economic expansion, a program both long and short range to develop the strategies, the strengths of their existing systems, and repair the weaknesses in the Community trade and investment area.

The coordinated export programs of the individual countries have shown surprising results. Eighty percent of European business exports outside of the Community. Eighty percent of U.S. business does not export.

The potential in the United States is overwhelming. Let's say that the Am-Cham in Europe live and work and deal in the countries involved where positive programs of an economic nature give incentive to the exporter and they go out and sell the products of their country in the other markets, and they get results. They have financing programs with which our country cannot compete. We cannot compare Americans with Americans.

We must compare Americans with our opponents, our adversaries. The conditions under which we live and work overseas must be considered not on the basis of whether we are Americans working in an environment the same as Americans here. It can't be considered that way. We must be considered as Americans against whatever opponents in the world that we have in the economic picture.

They have real coordination in their governments with international programs outside of their country to aid in the sales of their products. It is amazing. You indicated the case of the United Kingdom program. I happen to represent in Spain a little company of four men in the United Kingdom, called the Fitch Tape Co. They manufacture a programer for radio spots.

It is the only thing they manufacture. They get daily leads from the United Kingdom export opportunity program; we have increased their sales 100 percent in Spain in the last year. Fifty percent of that increase was due to the leads out of the United Kingdom program.

The Am-Chams in Europe recognize the need for this Department of International Trade Investment and would like to stress the following: This Department must give positive solutions and resist the urge to become a regulatory agency. We need a department to coordinate and promote the U.S. businesses overseas, and preferably a Cabinet level post which would have the ear of the President.

The world is our market. We are engaged in an all-out, no holds barred, economic war. If GATT—Tokyo round—does not make economic good progress in this area, we are in for a real important, long-term economic battle.

I want to commend the foresight of Senators Ribicoff and Roth for recognizing the big picture problem, and really putting into action a solution, with a workable answer to this problem, and avoiding the continuing rhetoric and lipservice that has been paid to our real problems in the international area.

This is a real problem and it requires real solutions now. Thank you.

Senator ROTH. Thank you very much.

Would anybody else like to comment? Mr. Hughson?

Mr. HUGHSON. Thank you, Senator.

I am Patrick N. Hughson, president of the American Association of Chambers of Commerce in Latin America, representing 16 American chambers and six branches with a membership of approximately 17,000 firms and individuals in Latin America.

Our organization and its members fully agree with the position of our sister organizations.

As for Latin America, when one considers the growth of direct U.S. investment of $10.3 billion in 1967 to an estimated $24 billion today and United States-Latin American trade of approximately $37 billion, it indicates that these figures alone call for a strong, coordinated economic policy in this area; not only the protection of the trade and investment, but also continued growth against very strong competition from all over the world.

I believe that that is an old doctrine which has long been considered passe; it was not looked upon from the point of view of an economic invasion in Latin America which is certainly taking place today; and with the growth of such countries as Brazil, Mexico, Venezuela, and their economic power, it is certainly a necessity on our part to have a strong economic position, policy, and through the approval of your bill, Senator, we think that can be accomplished, and we strongly support it.

I would just like to mention that in the bill under the charging of the functions of the Secretary, follow exactly our points of view of what should be the activities of such a department.

Our chambers of commerce have tried to follow those lines very closely. It is very gratifying to see that they have been picked up in the bill.

Senator, you mentioned giving something away and not getting something for it. We are very happy that the Panama Canal Treaties have been ratified, with sort of water under the bridge, that something unforeseen doesn't occur.

I think through this bill this position you have taken would be an excellent opoprtunity for us to move into Latin America and reap, from what our association considers as a new position in Latin America.

We certainly ought to get something for what we have given. I am not talking about the economic of the Panama Canal in itself, but I mean the policy, the position that we have taken now in Latin America, certainly should be followed upon an economic basis to reap from our new political policy.

This certainly can't be done, sir, under the present position, under the present structure of our support for trade and investment outside the United States.

You mentioned the attachés. Again, as our fellow witness had mentioned, this is not in any way a criticism, but I feel also that attachés are functioning just to fill a gap. Although they can go through their little trade fairs, and so forth, they are not fulfilling really what is required for interesting American business and especially small business in exporting to these countries that are certainly ripe for our entry in the economic field.

Senator, I want to thank you very much for permitting us to testify here today. We want you to know that you have our full support. And our organization stands ready to help you in any way we can.

If there is some information that you think we can provide in the Latin American area, as I mentioned, we are scattered through Latin America in 16 countries.

We have contacts in all the others through our business associations. We certainly can gather any information you would like to have, sir. Thank you very much.

Senator ROTH. Thank you. Any of the other gentlemen?

Mr. HAGUE. Senator Roth, I am Thomas Hague, area director for Asia, Borg-Warner Corp., and this year's president of the American Chamber of Commerce in Japan. My own career began in 1947 in the Philippines.

Since that time I have lived in Asia and a good deal in Australia. That year in the Philippines, of course, embarked me at least in the euphoria of postwar Asia when America had anything there was to sell and America had any money there was to invest and America had any personnel that were assigned to conduct the business of the area.

I suppose nowhere in the world has the erosion of that position been any more apparent than it has in my regional land of Asia.

Where the American brandname signs which we practically held sacred in that postwar period have come down and other national signs have gone up, national brands, national products, national services of our competitors.

That vacuum in the postwar period of the colonial economic structure which America could have filled, we were not allowed to fill.

I feel even as I hear this testimony and ponder, I have to accept my share of responsibility for not having done more. I think my corporation has to accept a share of responsibility. But we are now looking to our Government to redress whatever failure we have made.

I will speak only of my market area. I think that Senate bill 1990 at least is a beginning of the restructuring of the possibility of recovering the position.

It will be an inspiration to those of us individuals who still have careers left to work in Asia. I think it will be enormously reassuring to our own corporations to begin new activities, new thoughts of investment. We welcome it.

We face in today's Asia an authoritarian structure of governments who, as Mr. Burridge has said, place the economic force of their government on planning and programing.

We see a cohesion even in lesser developed countries which promises strong competition for our future.

I was in Korea just 2 weeks ago. The sense you get of that small country having lifted itself by its own bootstraps, the audacious planning they have for export for commanding a place in the world market, is both inspiring and a little bit awe inspiring.

If we can, as Americans, induce just some of that spirit in our future decades of commerce, we will regain a position which I think we have fallen off.

As I said, I won't even address the subject of Japan. But, of course, all of us who live and work in Japan reflect in an impassioned way the success we see of the Japanese cohesion; the result that it has brought them a commanding place in the world's market.

It is our great hope that the virtue of 1990 will be communicated strongly to our own corporations for their support and to the public at large. At least we feel the beginning is in front of us, and the Asia Pacific Council are enormously grateful that the provision has come about to give that promise. We certainly support it.

Thank you.

Senator ROTH. Any further comments?

Mr. SPONAUGLE. Yes, Senator. I would like to make a brief comment. My name is Woody Sponaugle, vice chairman of APCAC.

I am here to make a plea for help for the small businessman. I think you probably hear from many large companies, corporations who have the resources to go overseas, export. They have their own marketing organizations. They pick up their own leads and have their own staffs and facilities to carry out their own corporate programs.

Unfortunately, today, many of the small businessmen in the hinterland of America, particularly, really don't know how to go about exporting. They don't know where to go. They don't know where to go to pick up their leads.

The marketing intelligence is faulty. They go to their local banks. They cannot get the information as to how to export.

As a last resort, they turn to the Government; they come to Washington; they try to go about increasing their own business. Increase sales, increase jobs in their own area; and where do they begin to look? They have to look to commerce in part; they go to the State Department in part.

They find out there are many other regulations and problems and agencies involved in what they are now doing. In very short order it becomes too complicated for these gentlemen to go about setting up an export program.

It is a lot easier to go back and enjoy, perhaps, smaller profits keeping the business the same size and not compete in the world today.

If the man is successful in wending his way through Washington, he looks overseas at his competition. There he finds that much of his competition is assisted by the Government, or it is the foreign competition assisted by their own governments.

Again, he may become very discouraged and not compete. However, the small American businessman over the past many years I think we have seen is the most innovative source in carrying products overseas and developing new markets.

This is a group of people that should be encouraged and should be assisted. I think a reorganized Government structure as you are proposing would assist the small businessman.

He could come to Washington and receive all the help that he needs to go out and do battle in the world and become competitive. I don't believe anybody is asking the Government to go along and do his work for him.

But I do believe there is some assistance that can be rendered to this gentleman to go overseas and become competitive and increase America's exports.

You have the situation of the overseas investor at this moment; in other words, a small businessman who has gone overseas. He has taken the risks; he is sitting in a foreign country, competing, trying to increase sales; usually selling American products overseas trying to promote American imports into that country.

He faces a wide variety of trade barriers and restrictions that are very subtle that inhibit many of his activities in that country. How can he overcome these?

He goes to the Embassy and, of course, the Embassy, seeing it is a relatively small business, has no particular interest in tilting their own political affairs one way or another to economically assist this particular businessman.

So he doesn't find much assistance there.

We find that really only through DITI or Special Trade Representatives Offices can some of these tariff barriers, invisible barriers, be knocked down through the Trade Office.

Again, we find in a lot of places that the Embassies at the State Department will not take the risk to assist in helping the small businessman in these areas. I believe that this particular department would be of extreme help to the small American businessman.

I think if we were to make this program to increase exports effectively I think this provides really our only hope.

Thank you.

Senator ROTH. Thank you. Any further comments?

One of you made the offer of trying to provide assistance and help in promoting S. 1990. I would like to make a number of requests. First of all, Mr. Burridge, in your written testimony you supply certain attachments spelling out—I haven't had the chance to study them—but certain problems in your particular area.

It would be very helpful to me and to the committee, I believe, if we could have similar information from each of the regions. I urge you to make them fairly simple. Don't overestimate the intelligence of the Senate—or this Senator, anyway.

But that would be informative, and worthwhile.

Second, I would like to deal at the moment with small business, and the comments of many who are interested. I, too, am concerned about how do we expand medium and small business sales abroad.

There are a number of thoughts I have in this area. One suggestion made in your written testimony is we ought to have a business advisory committee. As one who advocated that for the trade negotiations for business, labor, and agriculture, it seems to me, there is merit to that suggestion. We should have perhaps written into our legislation, some kind of advisory committees for the interests that are directly involved. I would say in addition to business, labor, agriculture, we should also consider small business because I think some of their problems are distinct and separable.

How does small business from other countries fare in comparison with ours? That is one question I would like to ask you. Do they sell directly? Say in the case of Japan, are trading companies used as a means of selling the products of small business?

If that is the case, do we need to emulate or copy or is there a need for trading companies to promote the sale of American-made products of smaller business, in particular?

Mr. BURRIDGE. I think that it would assist a lot if there was a mechanism that provides some of the functions of the trading company. I think the biggest function, more important than promoting the product which can be done in various ways and is done by trade fairs and trade centers and publications, is processing the sale.

The big problem that small business faces in dealing with foreign markets is the complexity—to them, the complexity of operating, and the cost of it. Just the cost of complying with the Government requirements for an export and then complying with the commercial requirements, and then complying with the import requirements and then probably complying with licensing and registration requirements discourages small business right out of the field.

The other thing is in terms of tax treatment, it is very difficult. If there are drawbacks or other methods of supporting small business, the red tape to accommodate yourself to these is very, very difficult.

Even in the domestic scene, I believe, the Small Business Administration, in handling domestic loans, has created obstacles to a lot of small business.

I have talked to small businessmen that have given up because life is too short for some of the things that are required in the regulatory field. So I think—whether it would be a trading company, I don't like to say we would exactly do things the way Japan does, because in a sense their trading companies are highly integrated with a whole Zaibatsu organization.

It is an arm of a major corporation, really. We are not permitted to have that kind of consolidation in the United States without being in violation of a number of things. But I think if there could be a mechanism and the DITI could be that, there could be a structural mechanism for assisting, training, and even channeling the American product abroad, even if it did nothing but study everything that the United States requires in respect to an export in determining what is an impediment and what is not, and eliminating the impediments and developing it so it is an aid to small business, rather than an impediment to small business.

As Bill points out, our Government isn't structured to help anybody in this field. It is usually structured——

Senator ROTH. That is not necessarily limited to this area.

Mr. BURRIDGE. Yes. [Laughter.]

You see, the structures of the law of regulation, administrative enforcement, and so on, have all had other reasons. This is why I talk about economic mobilization.

We need a philosophy first. If we have a philosophy that we are going to get out there and compete and we are going to eliminate the negatives and emphasize and positives, then all we need is a structure to put it in motion.

You have suggested the structure.

I think if the structure is there, it doesnt' have to be a commercial trading company. It can merely be a facilitation agency of DITI that would do that. If I am building my widget in Canton, Ohio, if there is an 800 number I can dial and say how can I make out a letter of credit?

We have studied, our letters of credit and made them as simple as possible. It is not like an income tax form, the job would be done for him. We can tie our freight forwarding systems. It is very difficult to take a package from anywhere and send it to Manila.

You can't rely on postal service when you are in business; the expense is too high. But to try to work out an overland shipping business for a small business export is a very rough job. The little individual can't afford to. He is defeated before he starts.

The big companies don't need it. And the government isn't interested in it, or isn't involved in it, only in regulating those functions, not determining whether or not they are providing a service to the public.

It is regulated in the sense that they want statistics or they want taxes. They don't seem to want much of anything else. We are trying to suggest that the objective will be changed. It will only be changed, I think, if there is someplace to put it where there is a different kind of atmosphere and a different kind of objective applied. We hope DITI could do that.

Senator ROTH. I think both points you make are well taken. I can't emphasize too much the need to change the attitude of this Government in the need of selling abroad. We have to become strong advocates for the promotion of American-made products.

I agree with that. The other side is I think you need some organization with it. Going back a moment to small business, to me if I were a small widget producer in Wilmington, Del., for example, I would say the problem seems so tremendous that it takes an unusual individual to even address the problem.

I would like to try to develop the problems and obstacles, domestically as well as internationally, that they face. Even if you eliminate them, it still seems to me you have a very serious problem with the average small guy to look abroad to a foreign market.

We know Japan has these integrated trading companies, which, frankly, I would not support. I am a strong believer in antitrust and wouldn't want to go that way.

I was wondering if other countries, for example, the Netherlands, Great Britain, have used trading companies. What alternatives are there to promote—once you get rid of the redtape as much as you can? Is it really practical to think every small company is going to sell abroad?

I would hope so. But I am not sure how we accomplish this.

Mr. SINGLETON. Actually, I think if there is an incentive made for companies to go overseas and sell, and the way is made clear for them to go overseas easily, they will find ways to market their product.

They will find companies which will represent them in the international marketplace. I have a small company myself, which represents, as I indicated, an English company, two or three American companies overseas. The difference is amazing just between the English company and the American company alone.

If I want to borrow money, get a $50,000 loan to sell a $50,000 product to a small man in Barcelona, Spain, if I call up my company in the United Kingdom and say, "Look, these are the details," in 24 hours I got the loan.

The terms, they may be more or less equal to the economic terms that the American company has.

But I also represent a company in Florida called MCI, one of the most advanced in the field of recording music and highly technical equipment in mixing music for radio stations, and this type of thing.

It is impossible for me. It takes me 6 months to get a loan which might be helped through the Ex-Im Bank system. This guy has to finance the thing himself with his own little bank.

These people don't have an idea what a letter of credit is. They don't even know what the currency is. What is a peseta? I get a U.S. banker who says that it is a potato. How many potatoes is that? [Laughter.]

That is an incredible thing. Let's be honest. We are not organized to help the American people export. With MCI, I suppose that we should do about a million and a half dollars' worth of business in Spain, every year. They have great potential.

Just recently, they sold a package of about $2.5 million to Yugoslavia.

It was almost impossible for them to find financing which met the terms that the Yugoslav people wanted. They just said, "I want 7 percent. That is all. I want 10 years and 7 percent." The guy started hunting around to find it. He just couldn't find it anyplace. It was just lucky that he had enough of a business volume that he could take a loss on his profit margin over the long period of time, and try to work out this sale.

I don't think that is the answer. The answer is that American economic financing programs have to be competitive. We have to meet, as I said, the conditions of our opponents. We have to do our best to meet those conditions.

Some of those conditions are false. They are borrowing from their own people. It is a way of giving a subsidy. The financing is another way of giving a subsidy to sell these products overseas.

They are trying to identify this in the trade talks. You know, this is a moving target. Let's be honest about it. You clamp down on certain types of tariff barriers in some country and they will come up with a new type of scheme to help their people export.

They need exports. They don't care what you do. You will come back from Japan with an agreement to reduce trade. Well, OK. They are willing to reduce trade in some areas and will identify that we sell them more orange juice and more cattle, but they just never open that door up on an equal basis.

Wouldn't it be nice to be able to sell automobiles in Japan at the same rates that we are selling here?

Senator ROTH. Let me interject one comment because I think that is one thing that foreign nations are going to have to recognize, that if there is not what we on the Hill like to call fair trade, in contrast to free trade, there is going to be a strong protectionist trend. Because whether people like it or not, if you are losing jobs back in your constituency, you can't talk broad philosophy.

I think as we face the trade negotiations, it has to be recognized that in this country, as in other countries, we have to protect the jobs and employment of our people. I don't think they recognize the seriousness of this situation.

Mr. SINGLETON. I think we have recognized, and we have come to this conclusion, just by having this department created, it is going to scare an awful lot of these people. They are going to say, "My God," all of a sudden these people are going to look at the whole picture and are going to see the whole ramifications of it and they are going to be able to counteract our efforts in an effective way.

That is important; just the psychological effect of having this department created is going to change the situation at the trade tables. It is going to give Ambassador McDonald a much more powerful base from which to operate.

Senator ROTH. As one negotiator put it, one witness said before, when you don't speak with one voice, as we don't with our fragmented policymaking today, the other negotiators are quick to take advantage of those differences. You can't blame them.

Mr. PERKINS. My name is Robert Perkins, living in Tokyo. I am in the automobile business of the Chrysler Corp., and with Mitsubishi.

I would like to comment on what was brought up. I think this concept of a Department of International Trade and Investment is in itself a very strong move. You couldn't do anything stronger to make our competitors aware, whether they be Japan, France, Germany, the United Kingdom, Brazil, and the smaller countries, it is the fact that it is in being and the fact also in your bill you are tying together several key elements.

If I could comment on this, how it will help. You have got the Export-Import Bank involved; the STR office and just as importantly, you have the International Representatives of Commerce, State and other departments.

How does this affect the small businessman, as well as the big businessman? I will give you two examples. First, in trade negotiations the way they have been progressing and we have seen this in the Far East in Japan, we have just had some successful rounds.

The first chapter is closed, let's say, in a 10-chapter book. But in that negotiation, duties were removed entirely in some cases by Japan or lowered in others. But there are other ways of controlling the market and the importation of foods in Japan.

These were not removed in those negotiations. In other words, what I am saying to you is with the idea that is embodied in Senate bill 1990, the STR representative or the Department as it will now be called, of International Trade and Investment, will have all the information at his hands, which is now available to the Government but some of it is in Commerce; some of it is in the Department of State; some of it is in the Department of Transportation; some of it is in the Food and Drug Enforcement Administration, in the removal of nontariff barriers in dealing with the Japanese and every particular country.

In other words, what the STR office or the new Secretary of the Department of Trade and Investment can do is, he can have at his hands a mechanism where he is sitting down and negotiating nad saying, fine, we have done that, but we want you to also do this and for this—trade is a two-way street—we will make certain concessions on our side.

I think that is one part of the question. It helps all business as well as small business.

The second aspect of what you have done in the proposal in this bill resolves itself around having the Department of International Trade and Investment, but also having the financing arm there, the Export-Import Bank.

This is terribly important and is probably the most important tool that our foreign competition uses very aggressively. I think the intermeshing, the intertwining of the Export-Import Bank, with the other offices which you are combining into the Department of International Trade will make the situation much more favorable for the small trader who may be involved in, let's say, a major project, if you were putting in a new refining facility in Indonesia or down in Argentina, a lot of small producers of equipment get involved, whether they are in Wilmington, Del., or Kalamazoo, Mich.

The key fact is jobs will be created in this country by having an aggressive Department of International Trade and Investment that combines, not just the overseas commercial services, scattered as they may be overseas and back here in the United States, but combines the muscle of the STR office and the Export-Import Bank.

For that reason, speaking for myself, and a number of associates overseas, we think it is a very valuable and important—I won't say first step, many steps ahead to get this Department off the ground.

Thank you.

Senator ROTH. On that specific point, going back to where you people can be helpful, I must say in all candor that there is much business at the moment that doesn't necessarily support the new concept; because they like what they have and know what it is, and because they think they can deal with it.

But I think they are wrong and shortsighted in that approach.

One thing, I think those of you who are on the firing line can do much to promote the concept within your own organizations and colleagues.

Second, there is a feeling on the part of many people here as well as abroad that part of America's problem in selling abroad is of not only Government, but business itself is not that interested in selling abroad.

They look upon the foreign markets as, at best, a second market. The great market, of course, is the American market. They are not willing to devote the resources to train people in the necessary languages and other things that are necessary to go to these other countries.

I think there is some truth to those criticisms. But it does seem to me that perhaps one will help the other.

I would urge you, in any event, those of you who believe this new Department is useful, to try to get support. I point out the fact that I am here alone and you see the press makes it pretty clear that this is not the most popular burning issue on the Hill, so that we have to begin to give some visibility to the issue.

I think the climate is developing. The workers back home, as well as the small business people, and others, are aware that our trading balances, our international economic position is something that affects them and their pocketbooks. But it is hard to translate a new Department—some people ask me, I am always fighting the size of Government, why am I promoting a new Department.

Hopefully, we are not going to create a new bureaucracy but we are going to bring together and consolidate existing offices.

I think if you have to have a strong policy of promoting American-made products, you have to have people who head up that Department who believe in that. But as I say, we have a long ways to go even in persuading people in the private sector, as well as here as to the worthiness of the approach.

I think somebody else had their hand up before I commented?

Mr. SPONAUGLE. I was just going to comment again on the small business side. I don't think the small businessman throughout the United States may ever become a major exporter, each and every one.

I think it is the opportunity to become one, and the hope that there is somebody here in the Government where, if he wants to become an exported, he can come to this body and receive the market data. He can refer his banker to this group who would then advise him about the country.

He could have one central point when he does want to expand his business he has a place to go; that there are people who are willing to help him and he is not going to have to try to solve the Washington maze himself and get involved in a lot of jurisdictional battles in order to try to do his business.

In the future, I think some of the export trade councils and advisory groups that are developed should include more small businessmen so that the domination of these councils, say, by large business who may not have the same drive and interest in either exporting to that same degree, can be offset by some men who do want to begin to export and are looking for open assistance.

Senator ROTH. I agree with you. I think that is important.

Mr. KATHE. My name is Raymund Kathe. I am vice chairman of the Pacific Council and I live in Japan.

I would like to say one thing. Hopefully the new Department would be very strong in our negotiations on trade and trade agreements and investment activities with overseas areas for the simple reason that if we elevate our international economic policy too close to our political diplomatic military policy we will be heard, hopefully, in negotiations such as Mr. Fukuda coming to Washington in the next few days.

He has been able, and Japan has been able, to pull the wool over the eyes, you might say, of the United States for a long time with rhetoric and other statements on promises in trade and investment, which we have never, when these negotiations go on, we have never been well represented in the international economic area.

But we have always had the strong representation of the political people, for instance, at the State Department, who overlook and give away our economic advantages that grew quite often in the postwar period.

The Japanese are only interested in economic activity and it has been brought out in this table. The economic activity in almost all the countries is paramount where we have been willing to give away our advantage.

If we had a Department as you proposed, we hopefully will be represented better when a person like Mr. Fukuda comes to Washington and begins to make statements and rhetoric and gives promises on certain things they will do.

If we have a longstanding organization that has studied this problem in depth instead of him saying as he did last year that he would only have a current surplus of $700 million and ended up with $17.5 million, someone would blow the whistle before he starts; if someone recommends a 7-percent increase that he is going to have in Japan—and all the economists know he is going to have 5 percent or less, yet they go away happy because the State Department or, in the case of the President, is not advised properly, we will then have continuous friction which we don't want to have.

You mentioned the fact that people in Congress are particularly concerned if Japan does not perform and we are, too, because we work and live within the area and don't want these frictions. We know these frictions are going to continue.

It is unfortunate that we don't have a department that will point out the problems that will arise and tell the Japanese very bluntly to stop doing what they are doing otherwise we are going to have a blowup situation.

Thank you.

Senator ROTH. I would just like to ask a followthrough question on that. As everyone knows, the Prime Minister is coming here. What would you, if you were sitting across from him, what points would you people, who are on the firing line in that area, address?

What questions would you raise?

Mr. BURRIDGE. I would make one comment. I lived in Japan 18 years, and in that area for the last 32. I would sit down with the Japanese until I had my talk developed. And I would start off with my demands.

They would be considerable. Because you just can't negotiate from weakness. We always seem to do that. I think our President in Japan, Mr. Hague, has been dealing with this directly.

We are trying to establish stronger coordinated advisory services with our diplomatic personnel to try to put some backbone in them and develop a strong stance for negotiation.

One of our problems is we start off from our own minimum position and we can never work toward a maximum. I think Tom could give you more detail.

Mr. HAGUE. Senator Roth, we have operating in Tokyo now a trade study group composed of agencies of the Japanese Government, and our own Embassy commercial section, and then on a volunteer basis, members of the chamber representing different industries.

We are finding after 3 months of operation that we are operating with a different sense of urgency. The business people feel very urgent about it and want to handle it in very realistic terms on the issues.

We do not find that urgency in our embassy counterparts, and the Japanese are very quick to see where any weak links in the American chain exist. If I were to handle Prime Minister Fukuda, it would seem to me instead of what I believe the Japanese now perceive as crying wolf on behalf of the U.S. Congress in terms of protectionism, that we would simply set goals and suggest such specific goals in terms of thorough support of our defense establishment which, in fact, is providing now an umbrella for a Japanese investment in Asia and not American largely, that would be a good place to begin in redressing the imbalance.

As you well know from your own considerable exposure to Japan, if they can keep us talking philosophy and large issues and broader terms and keep us away from the specifics in which they deal and know very well how to deal, they have time.

Our function as business people in the trade study group is to see that it simply is not a study for providing time for the Japanese, but that we do come up with some specific recommendations.

We have come across in our category of industrial study, in the appliance group, we have come across the need for the Japanese to operate an underwriters laboratory as we did.

In the case of the automotive industry and the cost of imports from America, we at least discovered that they could remedy the situation by moving their commodity tax away from the CIF figure closer to a FOB figure as we Americans would in terms of our imports from their production.

We will keep on hammering away at such specifics because it is only in terms of the uncovering of specifics that I think we make any ground at all with the Japanese, and on the level and scale of executive handling of the Prime Minister, only that will work.

If we are not prepared at that level to talk in very hard terms, the threat of congressional action in the fall, I don't think, has had the impact as we perhaps perceive it. It hasn't had it yet.

Senator ROTH. Let me say that I am not sure that they were merely threats as far as the Congress is concerned. I don't think anybody knows what the mood will be. But I can assure you that there is grave concern among the Members of the Congress, and there are some who fear that it could become so strong that even if we were able to make progress in the trade negotiations, it would be hard to stop.

Mr. KATHE. If I were President Carter sitting across from Mr. Fukuda, I merely would start out by saying we hemorrhaged with a very poor trade relationship with you for the past several years and you promised to do things and we tried to find the nontariff trade barriers, we tried to sell to you, we have done a lot of things, we are still trying and will continue to try.

But there has been some comment in our circles that the one way to solve this simply without going through all these exchange rates and nontariff trade barrier negotiations, and you buy orange juice from us and we will buy widgets from you; just say, "Look here, you have a year to get down to within a $2 billion trade deficit with us and that is that. We are not going to take another $9 billion. If you don't get down we will take action to see that you will; so we will get to an equal trade basis instead of a free or fair trade basis."

That is not what we want but if we don't do it the Congress will see it is done for us and, therefore, do it. Don't give me a lot of rhetoric. Go home and do it; because he can do it. He has the power in Japan to regulate trade with the United States. There are no political problems that he would have in getting it done.

Senator ROTH. Thank you.

Mr. HUGHSON. Senator, I would like to switch back a moment. I am sure you received all the good advice on facing the Prime Minister. So if I may refer to the small businessman again. In the new department, I feel sure this has been considered on sort of a gearing to a reversed procedure, also.

In the effect of businessmen from our host countries coming to the States looking for manufactured goods, equipment, and so forth, sometimes are discouraged. First of all, if it is difficult for the U.S. citizen to find his way around Washington, for example, it certainly is for the foreigners, unless he is a Korean. [Laughter.]

Therefore, the facilities should be available to him to direct him in the right direction. Unfortunately, many of the leads we have sent up from Latin America have become discouraged either by the manufacturer who feels he doesn't want to expand into the field of export because of the problems that it will create for him or the redtape as has been mentioned here, has gone abroad in receiving either manufactured goods for products he is making or equipment for construction, what have you.

I am pointing out we want to be sure that we are also covering those people coming in from outside to look for trade, looking for exports into their respective countries, be given a means of quickly and rapidly finding those sources and being encouraged to use them.

Thank you.

Senator ROTH. Thank you.

It is almost 12:30. In closing, I would just like to refer to a statement of Mr. Barton's when he pointed out that the Assistant Secretary of Commerce, Frank Weil, is heading a task force for studying export problems and promotion.

I would urge each one of you, you have made a number of valuable suggestions here, and I would hope you would take the opportunity of contacting this task force and make known your views there. I don't want to shut you off. Is there anybody else that wants to add anything? Please feel free at this time.

Mr. HAGUE. We have had our opportunity to respond to the first request that the Commerce Department has made in Tokyo at least.

Mr. SINGLETON. I think everybody here has had some sort of a meeting with Mr. Weil. He is certainly a bright light in our drive for increasing international trade. The only problem is, the old gray lady over there, Commerce, never seems to have punch, nor the ear of the President, nor the real organizational ability.

We know what you are up against because we go and talk to these people in these respective departments and we say, how would you like it if we took that responsibility away from you. What I would like to point out is I think the situation is very clear.

There is nobody with the responsibility for establishing a program for international trade. If we go to Mr. Julius Katz and say, "Listen, Julius, how about you taking all the responsibility for the nonprogam we have had for the last year, this balance of payments. That is your problem, right? You are the one at fault because you want to have your department with all this power in this particular area."

He will say, "Actually, I think that is a Commerce problem. I can't take all that responsibility, because Commerce has a lot to do with that."

He wants the power, but he is not willing to take the blame for the results.

We need a man to point a finger at. We need a man who is going to be sitting there and understand the whole picture so he can understand what is going to fall on his shoulders if he doesn't do a good job.

I think that is a key point.

We feel that this DITI solution will give a man to point the finger at. That is why especially the EuroMed people think this should be a cabinet post so he has the power and structure to put some punch into what he is saying and to get some results.

Mr. BURRIDGE. We would like to thank you very much for this opportunity to take all of your morning, that Amtrak didn't take away. We very much appreciate it. It is a unique opportunity for us. Your bill itself has been a unique opportunity.

We think that both you and your staff deserve terrific credit for the foresight you had in developing this bill before we got in the spot we are in now. We regret it is almost the only light at the end of the tunnel as we see it right now.

Our own corporations are just as guilty as the executive branch or the others whom we have criticized for inactivity or negative activity in this case. You certainly have our 1,000 percent support in pursuing the bill and these objectives that are even larger than the bill.

We don't think our country has had a greater threat. We are scared to death of it. Something has got to happen. We simply have to have support or we are going to follow the path of many other countries that have become second-rate economic powers.

Thank you.

Senator ROTH. Thank you.

I can say we intend to move ahead. The subcommittee is in recess.

[Whereupon, at 12:30 p.m., the committee recessed, to reconvene subject to the call of the Chair.]

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